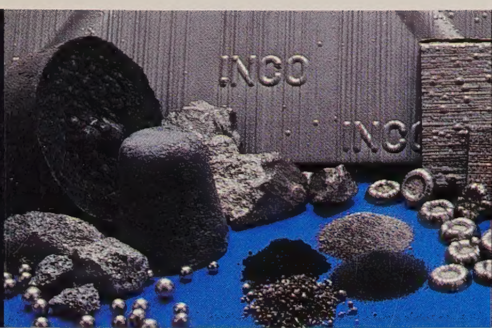
INCO
1979 ANNUAL REPORT



... RECOVERY IN PRIMARY METALS

... REORGANIZATION IN ELECTRICAL ENERGY

... STRENGTH IN FORMED METALS

... PROGRESS IN OTHER BUSINESS

THE COMPANY

Inco Limited is a diversified company engaged in three principal businesses: primary metals, electrical energy and related products, and formed metal products.

Inco Metals Company, a major operating unit of Inco Limited, is the world's leading producer of primary nickel and a substantial producer of copper and precious metals.

Inco ElectroEnergy Corporation, a wholly-owned subsidiary, is a worldwide manufacturer of automotive, dry-cell and industrial batteries, and related products.

The **Formed Metal Products Group** is an international group of companies producing rolling mill, forged and machined products.

Other Business of the Company covers a wide variety of interests, including new businesses, safety products, resource development and research.

Inco Limited is incorporated in Canada, and at year-end Canadian residents of record held 62 per cent of the voting shares. The Company and its subsidiaries employed, at year-end, 53,460 people in 27 countries.

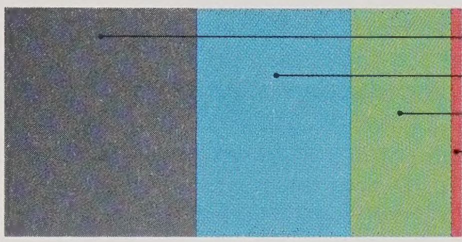
Inco Limited is in accord with the essential principles of the Guidelines issued in 1976 by the Organization for Economic Cooperation and Development for multinational companies.

Annual meeting
The Company's Annual Meeting will be held in Toronto on April 16, 1980.

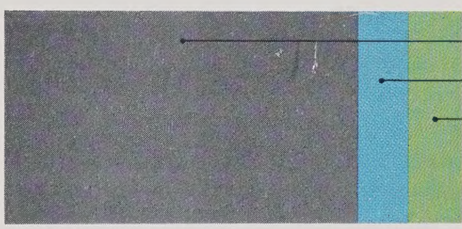
CONTENTS

RESULTS IN BRIEF

(in thousands except where noted by asterisk)	1979	1978
Net sales	**$2,488,543**	$2,083,094
Net earnings	**$ 141,725**	$ 77,809
Net earnings applicable to common shares	**$ 118,451**	$ 57,298
Per common share*	**$1.58**	$0.77
Common dividends paid	**$ 37,380**	$ 52,216
Per common share*	**$0.50**	$0.70
Income and mining taxes	**$ 138,242**	$ 87,070
Capital expenditures	**$ 128,848**	$ 219,934
Employees*	**53,460**	52,581
Common shareholders*	**74,541**	75,067

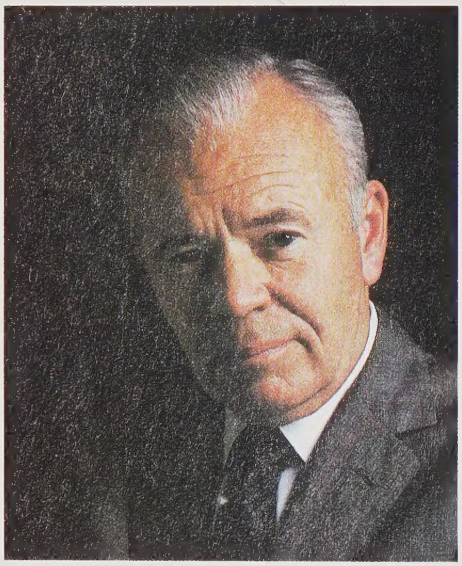


Contribution to sales ($millions)	1979		1978	
Inco Metals Company	**$1,054**	**42%**	$ 866	41%
Inco ElectroEnergy Corporation	**842**	**34**	755	36
Formed Metal Products Group	**553**	**22**	429	21
Other Business	**40**	**2**	33	2
Total	**$2,489**	**100%**	$2,083	100%



Contribution to operating earnings ($millions) Including equity in affiliates	1979		1978	
Inco Metals Company	**$ 340**	**79%**	$ 167	70%
Inco ElectroEnergy Corporation	**45**	**10**	45	19
Formed Metal Products Group	**50**	**12**	25	11
Other Business	**(1)**	**—**	—	—
Consolidation adjustments	**(5)**	**(1)**	1	—
Total	**$ 429**	**100%**	$ 238	100%

Dollar figures in this Report are expressed in United States currency, unless otherwise stated.



Chairman J. Edwin Carter (top) and President Charles F. Baird

The measured optimism of last year's message was largely realized during the past twelve months, as results for 1979 demonstrate. Earnings for the year improved significantly, particularly in the second half. Both Inco Metals and the Formed Metal Products Group achieved substantial improvements over 1978. However, operating earnings of Inco ElectroEnergy (formerly ESB Ray-O-Vac Corporation) were the same as in the previous year.

Several internally-generated ventures continued to progress toward full operational status. Though small, they demonstrate the significance of our research programs and have real potential for growth. These developments are described elsewhere in this Report.

Financial results

Earnings for 1979 of $141.7 million, or $1.58 per Common Share, improved significantly over the previous year, but still were not at a satisfactory level. The improvement is attributable largely to higher prices for our primary metals and formed metal products and an important tax credit resulting from a tax change in the United Kingdom. These factors were partially offset by charges (consisting principally of interest expense) applicable to the Guatemalan and Indonesian projects, by a higher level of expenses attributable to the Sudbury strike and by the adverse effect of currency translation adjustments. For the first half of the year earnings were extremely low, due principally to low nickel prices and to costs and expenses attributable to the Sudbury strike which began in September 1978 and was settled in June 1979. Second half earnings showed a marked improvement.

The improvement in earnings, together with continuation in 1979 of our program of cash conservation, contributed to a strengthening of our financial position. Capital expenditures in 1979 declined to $129 million from $220 million in 1978, largely because of reduced expenditures on the Guatemalan and Indonesian projects. In 1980 capital expenditures are expected to approximate $220 million.

Inflation

Inflation is, and should be, of overriding concern to governments, industry and individuals. In the Supplementary Financial Information section appearing on page 35 of this Report we have provided information relative to the effects of general inflation on our results and financial position. We encourage your review of this supplemental financial information and the related explanations and comments. The approach is essentially experimental, and in time we expect a more precise measurement will evolve.

Conventional financial reporting based on historical costs has long served a worthwhile purpose and should probably continue as an important form of financial reporting. In periods of high inflation, however, conventional financial reporting does not adequately disclose the effect of inflation on a company's past and prospective performance. Simply to stay in business without growing requires ever-increasing investment to replace plant, equipment and inventories. Taxes, nevertheless, must be paid on earnings measured in a way that does not adequately reflect the impact of inflation. Industry must seek recognition of this fact from the public and from governments so that changes in tax legislation will be made. We hope

that the reporting of supplemental financial information dealing with the effects of inflation will accelerate this process.

Common Share dividends

In the decade of the 1960s, Inco's earnings were rising, cash requirements were lower and inflation was moderate. During this period, the Company was able to finance its business growth largely by reinvestment of earnings while at the same time paying out a substantial percentage of earnings as dividends. Since then, competition has intensified; cash requirements to maintain and expand our investment in plant, equipment and inventories have increased substantially; rates of inflation have risen sharply; and there has been a consequent decline in levels of profitability. As a result, the Company has had to rely heavily on external financing, including preferred shares and long term debt, to finance new and replacement plant, equipment and inventories.

We recognized that, due to these rapidly changing conditions, a greater proportion of our earnings should be reinvested. However, as a result of the cyclicality of Inco's business, our dividend payout rate, while fluctuating significantly, still accounted for a high proportion of reported earnings in the 1970s. When inflation is taken into account, the proportion was even higher, because inflation-adjusted earnings, particularly for a capital intensive company such as Inco, were substantially less than reported earnings.

When considering any dividend, your Board of Directors must, of course, weigh a number of factors, not the least of which is the need to insure that the Company has adequate funds to finance its short and long term needs. Looking ahead, the Board currently believes that, under normal circumstances, dividends averaging approximately one-third of reported earnings per common share over a period of years would represent an appropriate level of payout. Within this framework, regular quarterly dividends would be paid at a rate which would be sustainable, but total payout would be adjusted, when appropriate, by year-end extra dividends. Your Board and your management are convinced that this approach will promote the sound long term growth of the business and consequently the growth of earnings, dividends, and the value of the shareholders' investment.

In December a 10 cent year-end extra dividend on common shares brought the total dividend for 1979 to 50 cents a share as compared with 70 cents a share in 1978. The extra and regular dividends in 1979 represented 32 per cent of reported earnings applicable to common shares. Earlier this month the Board of Directors increased the regular quarterly dividend from 10 cents to 15 cents a share.

Outlook

The past few years have been difficult for Inco. Stringent financial constraints have been required to insure your Company's future good health. These constraints have imposed severe strains on employees and shareholders alike, but we have survived with our basic strengths intact and with the feeling that better days lie ahead.

In assessing 1980 we are encouraged by the fact that our primary metals business is off to an especially good start. Nevertheless, forecasts of recession, political instability in many areas, and continuing high inflation are reasons for caution.

We see the decade of the eighties, however, as a period of substantial growth for Inco: a growth that will reflect increased utilization of existing production capacity, a more diversified range of products, and an early return to satisfactory levels of profitability.

Improved communications with employees and the public and continuing advances in our occupational safety, health and environmental control programs, are high priority corporate goals. We expect to achieve them all.

We know that society expects more of a corporation than earning a profit, but it must be understood that profitability enhances a company's capacity to provide other social benefits. In fact, we can accomplish nothing unless we maintain Inco's profitability and thus its financial good health.

J. E. Carter

Chairman and Chief Executive Officer

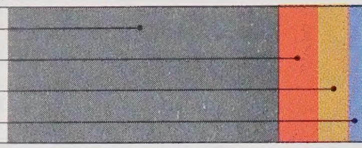
Charles F. Baird

President

February 14, 1980

Operating highlights

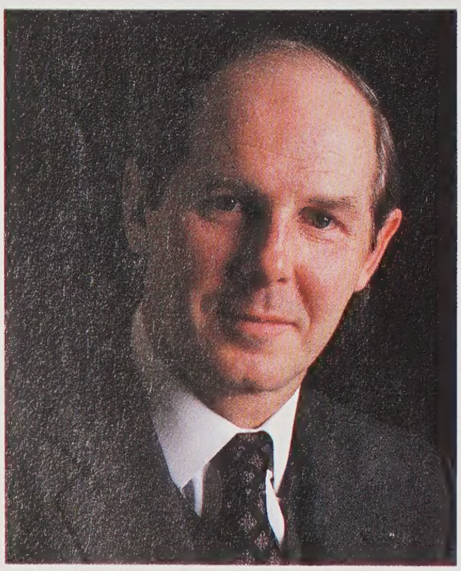
Operating earnings ($millions)	**1979**	1978
Net sales to customers	**$1,054**	$ 866
Intersegment sales	**135**	135
Total	**1,189**	1,001
Costs and expenses	**849**	834
Operating earnings, including equity in affiliates	**$ 340**	$ 167



Sales by product ($millions)				
Primary nickel	**$ 807**	**77%**	$615	71%
Refined copper	**115**	**11**	135	16
Precious metals	**87**	**8**	81	9
Other metals	**45**	**4**	35	4
Net sales to customers	**$1,054**	**100%**	$866	100%

Deliveries (in thousands)		
Primary nickel and intermediates	**332,090**	319,070
Nickel contained in formed metal products	**61,540**	58,360
Total nickel (pounds)	**393,630**	377,430
Copper (pounds)	**129,090**	224,560
Platinum-group metals* and gold (troy ounces)	**326**	468
Silver (troy ounces)	**790**	1,140
Cobalt (pounds)	**1,240**	1,700
Iron ore (long tons)	**166**	355

*Platinum, palladium, rhodium, ruthenium and iridium.



Donald J. Phillips
President and Chief Executive Officer, Inco Metals Company

The year 1979 was one of recovery for Inco Metals Company – a recovery from very low nickel prices, continued recovery in nickel demand, and recovery from the long strike at the company's Sudbury, Ontario operations. Prices improved for other products, with copper, cobalt, platinum-group metals, gold and silver all averaging substantially higher levels than in the previous year.

These other products are principally associated with Ontario Division production and, due to the Sudbury strike, their availability in 1979 was severely limited. Significantly higher quantities are expected to be available in 1980.

In 1979, operating earnings increased 104 per cent from $167 million in 1978 to $340 million.

Marketing

Marketing results for Inco's primary metals during the year compared with 1978 are shown in the tables above.

Nickel Inco's total nickel deliveries in 1979 were 394 million pounds (including nickel in intermediate products), an increase of 5 per cent over 1978.

Nickel demand in the non-communist world in 1979 is provisionally estimated at about 1,350 million pounds, 13 per cent higher than the 1,200 million pounds for 1978. Production of stainless steel in 1979 set an all time record, and industrial activity worldwide was at a high level. Strong demand and curtailed production of nickel, due in part to the Sudbury strike, resulted in a reduction of total producer inventories of primary nickel by year-end to about 300 million pounds from 550 million pounds at the end of 1978.

Inco Metals' inventories of nickel at year-end 1979 stood at 89 million pounds, a reduction of 141 million pounds from year-end 1978.

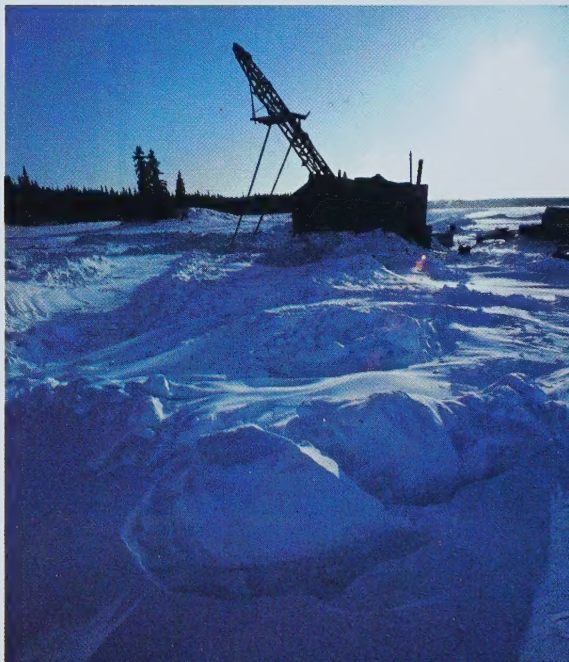
Prices for primary nickel recovered throughout the year. Inco's average net realized price, including deliveries of intermediate products, was $2.43 per pound compared with $1.98 per pound in 1978.

Copper Deliveries of ORC* copper in 1979 were severely affected by the Sudbury strike. Following resumption of production in June, deliveries for the balance of the year totalled 129 million pounds. Inco Metals, which markets ORC* copper in Canada and in Europe, realized an average price of 91 cents per pound in 1979 compared with 61 cents per pound in 1978.

Precious metals Higher world prices for all precious metals resulted in record sales even though deliveries of platinum, palladium, gold and silver were adversely

The Manitoba Division, in cooperation with a Winnipeg company and the National Research Council, has developed an improved muffler that reduces sound levels of pneumatic drills and other equipment. At right, sound pressure levels from a prototype muffler are recorded at Thompson Mine.

*Inco Trademark



affected by the Sudbury strike. Sales of $87 million in 1979 exceeded the previous high of $81 million in 1978.

Cobalt Inco Metals' deliveries of cobalt decreased 27 per cent from 1978 as a result of the Sudbury strike and a strike at the Clydach, Wales operation. Despite these production difficulties, higher prices increased sales 86 per cent to $38 million. Cobalt recoveries were increased substantially at the Thompson and Sudbury smelters.

Production

During the year production was reduced primarily by the Sudbury strike and, to a lesser extent, by technical problems in Indonesia, a strike at the Clydach nickel refinery, and a short work stoppage at the Exmibal operations in Guatemala.

Nickel production for the year totaled 255 million pounds in 1979 compared with 267 million pounds in 1978 and 417 million pounds in 1977.

Production of copper, which originates mainly from Ontario ores, was 146 million pounds compared with 197 million pounds in 1978 and 328 million pounds in 1977.

Production in the Ontario Division was close to planned levels within two months of the end of the strike in June. Eleven mines are now in operation in the Division, including Shebandowan, which was brought back on stream in June.

In the Manitoba Division, operations continued during the year, and productivity improvements were achieved throughout the Division.

Significant technical problems at P.T. International Nickel Indonesia impeded production. Nevertheless, output in 1979 was 19 million pounds of nickel in matte, up from 10 million pounds in 1978.

The difficulties relate to corrosion of the refractory linings in the electric furnaces due to the acidity of the ore planned to be processed. Substantial progress has been made in identifying and rectifying the problems involved and work is continuing. Significant increases in production are anticipated this year.

The Larona hydroelectric power plant, which was completed by P.T. International Nickel Indonesia early in 1978, has operated well and provides about 50 per cent of the total energy requirements for the operations.

By the second half of the year operations at the Exmibal facility in Guatemala had operated at or near design throughput rates. Production for the year was 14 million pounds of nickel in matte form compared with four million pounds in 1978.

At Clydach, Wales a new fluid bed roaster and associated acid plant were commissioned. On December 27 severe flooding damaged the refinery and some of the inventories of metals and supplies. The full extent of the damage is still being assessed. As a result of this, and a strike which started in October, Inco Europe Limited declared force majeure on cobalt salts on January 11, 1980, and on battery-grade nickel powders with effect from the end of February 1980.

A drop in supplies of precious metals concentrates from Sudbury due to the strike reduced production of precious metals at the Acton, England refinery.

Throughout all of our production operations the main goals continued to be improvements in occupational safety and health programs, employee relations, metal recoveries, productivity, environmental control and energy conservation.

Research and development

Six years of basic research at Inco's J. Roy Gordon Research Laboratory at Sheridan Park, Ontario revealed a possible method of further decreasing Inco's sulphur dioxide emissions to the atmosphere. It involves a new process for physically separating additional pyrrhotite, a sulphur-bearing waste material, from nickel concentrates prior to smelting. The process is now being tested on a pilot scale in Sudbury. Preliminary results are encouraging.

In addition, a novel process for smelting nickel concentrates has been developed. It has the potential for producing a continuous stream of high-strength sulphur dioxide gas suitable for the production of sulphuric acid, thereby permitting a reduction of emissions of this gas to the atmosphere. This technology also has the important potential for improving workplace conditions and metals recovery. The process is now being tested at the Research Stations in Port Colborne, Ontario, and plant modifications are underway in Thompson, Manitoba to permit evaluation on a commercial scale. It is planned to complete the test and a technical and economic feasibility study by the end of 1981.

A new process to improve Inco's gold, silver and platinum metals treatment in Canada has been developed by the J. Roy Gordon Research Laboratory. Further pilot scale tests are scheduled for 1980.

Expenditures on research and development at Inco Metals' process laboratories and research stations in 1979 were $14 million, compared with $12 million in 1978.

Environmental control

The Sudbury smelter continues to operate under an Order, dated July 27, 1978, issued by the Ontario Ministry of the Environment which, in part, limits emissions of sulphur

Top: At the Sudbury smelter a furnace was brought into operation to test a process to improve cobalt recovery from converter slag.

Bottom left: At P.T. International Nickel Indonesia another section of the orebody was developed during 1979 to provide blended ores.

Bottom right: Changes in Manitoba mining taxation have prompted Inco Metals to expand its exploration program in the Manitoba Division.

dioxide to 3,600 tons per day on an annualized basis. The company is in compliance with this requirement and substantially in compliance with other requirements of the Order, which expires June 30, 1982. Inco Metals has intensified its continuing investigations aimed at making additional reductions in sulphur dioxide emissions. If the test programs previously described in the Research and Development section of this Report produce favorable results, further significant reductions in sulphur dioxide emissions could be achieved. Implementation of the new processes would require substantial capital expenditures, and in the case of the smelting process, a solution to the problem of disposing of large quantities of sulphuric acid.

The Thompson smelter continues to operate under an Order of the Manitoba Clean Environment Commission, dated July 7, 1978, which, in part, limits sulphur dioxide emissions to 1,250 tons per day. At current production rates, emissions are well within this limit.

Occupational safety and health

Occupational safety and health are receiving increased attention. In Ontario, a major occupational safety and health law passed in 1978, was proclaimed in 1979 and new regulations applicable to mining were passed. In Manitoba the company cooperated fully with a government committee inquiring into occupational safety and health.

Inco Metals Company continues to comply with the occupational safety and health guidelines and standards applicable to all its operations. Workplace exposures are being monitored in each operating unit.

In the United States, the Occupational Safety and Health Administration (OSHA) has announced its intention to establish new standards for workplaces where nickel is present. The company has undertaken three epidemiological studies of its workers and has encouraged other producers and consumers of nickel to do the same. Altogether, 19 epidemiological studies have been initiated. Results from most of these should be available in 1980 and should play an important role in OSHA's rulemaking.

Again in 1979, the Manitoba Division continued its trend of improved safety performance.

In 1979 considerable improvements were achieved in safety performance in the Ontario Division. These improvements reflect continuing attention to safety organization and efforts, as well as a massive re-instruction program undertaken to reacquaint employees with the safety aspects of their jobs upon their return to work following the Sudbury strike.

Exploration

Inco Metals spent $13 million on exploration in 1979, the same as in 1978. About 70 per cent of these amounts were spent in Canada. A large portion of exploration was in the vicinity of Inco's Canadian mines with some geological targets being drilled to a depth of 10,000 feet.

A potentially significant uranium discovery was made in Saskatchewan on a property owned jointly by Inco Metals Company and Canadian Occidental Petroleum Ltd. Drilling is in progress to define in more detail the tonnage, grade and distribution of the mineralization.

Ore reserves

At year-end Inco had proven ore reserves in Canada of 436 million short tons, containing 6.9 million short tons of nickel and 4.3 million short tons of copper. This compares with reserves at year-end 1978 of 397 million short tons containing 6.6 million short tons of nickel and 4.2 million short tons of copper. Only material that has been sampled in sufficient detail to enable a reliable calculation is classified as reserves.

At Soroako, on the Island of Sulawesi in Indonesia, and in the Lake Izabal area of eastern Guatemala, Inco has outlined large resources of nickeliferous laterite. At each location, these resources are adequate to supply operations at design capacity for the expected lives of the facilities.

Consulting

The company continued to sell consulting services through INCO TECH* on projects in Canada, the United States, South America, Africa and the People's Republic of China.

Industrial relations

In the Ontario Division a new three-year agreement covering production and maintenance employees in the Sudbury area was ratified on June 3, 1979, ending a strike of 8½ months. Staff employees continued to work during the shutdown of the Sudbury operations. During the strike, the Port Colborne nickel refinery continued operations under a one-year agreement which expired July 10, 1979. This contract was renegotiated prior to its expiry date.

Both the Sudbury and Port Colborne agreements terminate on May 31, 1982.

Nearly 99 per cent of the production and maintenance workforce reported to work at the end of the Sudbury strike. Special training preparations for an orderly startup on June 5 and recovery from the strike proved successful.

Efforts to restore positive company-union relations continued through joint, co-operative committees active in the areas of occupational safety and health, drug and alcohol counselling, employee training and financial counselling.

A communications program, which was introduced in the Manitoba and Ontario Divisions, entails presentations to all employees, union leaders, government representatives and the communities at large. The program reviewed aspects of Inco's operations and was designed to develop a better understanding of the company's operations, policies and objectives.

In the Manitoba Division, a new collective bargaining agreement for production and maintenance employees was negotiated successfully

*Inco Trademark

As part of a corporate commitment to reduce its emissions of sulphur dioxide, Inco has developed a novel process for reducing the amount of sulphur in the feed to its Sudbury smelter. The top left photo shows a piece of Sudbury ore. Our concentrators presently separate the ore into four streams: a nickel concentrate containing most of the pentlandite (yellow); a copper concentrate containing most of the chalcopyrite (blue); a sulphur-rich nickel-poor pyrrhotite concentrate (purple/pink); and tailings containing most of the rock (grey). The object of the new process, now being tested in a pilot plant at Sudbury, is to reduce the amount of pyrrhotite in the nickel concentrate. The intimate intergrowth of pentlandite and pyrrhotite shown in the highly magnified photo on the right is one reason why improved separation is difficult.

prior to the March 1, 1979 termination date. The new agreement will expire on September 15, 1981.

In the United Kingdom, one-year agreements were negotiated with unions representing staff employees at the Acton and Clydach refineries. Production and craft workers at Clydach rejected the contract proposal accepted by staff workers and went on strike October 18, 1979. The strike continued at the date of this Report.

In Guatemala a dispute between some workers and Exmibal resulted in a work stoppage. The 17-day dispute was settled on November 24, 1979 with the signing of a collective agreement, which is in effect until September 30, 1981.

Officers

Donald J. Phillips was elected President and Chief Executive Officer of Inco Metals Company on June 15, 1979. Prior to his election he was President and Chief Operating Officer. He joined Inco in London in 1956.

Effective January 1, 1980 Edward R. Burrell became President of the International Nickel Company, Inc., responsible for the company's primary metals marketing in the United States and Latin America.

Employees

At year-end 1979, Inco Metals had a total of 24,376 employees. Of this total 17,933 were in Canada; 3,649 in Indonesia; 1,425 in the United Kingdom; 967 in Guatemala; 293 in the United States; and 109 in other countries. At year-end 1978, Inco Metals employed 23,795.

Officers

Inco Metals Company

Donald J. Phillips
President and Chief Executive Officer

Walter Curlook
Senior Vice-President

Charles E. O'Neill
Senior Vice-President

Johannes P. Schade
Senior Vice-President

William A. Correll
Vice-President

William I. Gordon
Comptroller

James D. Guiry
President, INCO TECH

Daniel Kelly
Vice-President

Donald B. MacDermott
Chief Legal Officer

Terrence Podolsky
Vice-President

Ronald R. Taylor
Assistant to the President

Principal marketing operations

Edward R. Burrell
President, The International Nickel Company, Inc., New York

Robin B. Nicholson
Managing Director, Inco Europe Limited, London

J. A. Keith McPhail
General Manager, Canadian Marketing Division

Kevin H. Belcher
Managing Director-Marketing, International Nickel Australia Limited, Melbourne

Principal production operations

Winton K. Newman
President, Ontario Division, Sudbury

Charles F. Hews
President, Manitoba Division, Thompson

W. Roy Aitken
President, P. T. International Nickel Indonesia, Jakarta

Harold A. Laine
President, Exmibal, Guatemala City

Principal properties, plants, laboratories

Operating mines
Sudbury, Ontario; Shebandowan, Ontario; Thompson, Manitoba; Soroako, Indonesia; El Estor, Guatemala

Smelters
Sudbury, Ontario; Thompson, Manitoba; Soroako, Indonesia; El Estor, Guatemala

Iron ore plant
Sudbury, Ontario

Matte processing
Sudbury, Ontario; Clydach, Wales

Refineries
Sudbury, Ontario; Port Colborne, Ontario; Thompson, Manitoba; Clydach, Wales; Acton (London), England

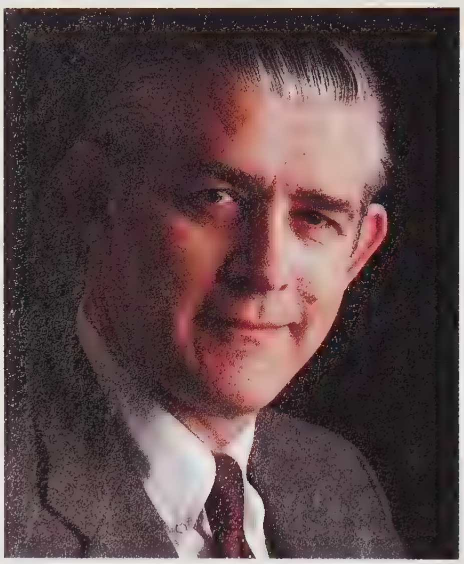
Research laboratories and pilot plants
Sheridan Park (Mississauga); Sudbury and Port Colborne, Ontario; Thompson, Manitoba; Clydach, Wales

Operating highlights

Operating earnings ($millions)	**1979***	1978*
Net sales to customers	**$842**	$755
Intersegment sales	**—**	1
Total	**842**	756
Costs and expenses	**797**	711
Operating earnings, including equity in affiliates	**$ 45**	$ 45

Sales by product ($millions)				
Batteries and related products				
Automotive	**$303**	**36%**	$282	37%
Dry cells	**268**	**32**	246	33
Industrial	**173**	**20**	127	17
Total	**744**	**88**	655	87
Other products	**98**	**12**	100	13
Net sales to customers	**$842**	**100%**	$755	100%

*Does not include Safety Products which was transferred to Inco United States,Inc.



David C. Dawson
President and Chief Executive Officer,
Inco ElectroEnergy Corporation

The reorganization of ESB Ray-O-Vac Corporation in 1979 was followed early in 1980 by the change of the company's name to Inco ElectroEnergy Corporation. This new identity establishes a direct relationship with the parent company and clearly defines the electrical energy field as the primary business.

Subsidiary companies have retained their identity to maintain the high visibility of brand names in the consumer market: Exide Corporation (automotive and industrial batteries); Exide Electronics Corporation (power conversion and related products); Ray-O-Vac Corporation (primary batteries and portable lighting devices) and Universal Electric Company (fractional horsepower electric motors).

Inco ElectroEnergy sales increased to $842 million during the year, up more than 11 per cent from sales of $755 million in 1978, but operating earnings were disappointing.

Increasing and fluctuating lead prices were a major factor affecting profitability in battery markets. Lead prices peaked at over 60 cents per pound during the year, up from about 40 cents per pound at year-end 1978. Keen competition prevented the recovery of increased lead prices and other cost increases.

Results in the United States and Canada in dry cells and micro power products were adversely affected by severe competition.

Industrial battery operations had a record year, increasing market share and building a leadership position in the industry. The company's sales in the rapidly growing uninterruptible power supply (UPS) market increased 50 per cent.

Electric motor sales reached record levels for the fourth consecutive year.

Foreign operations were strong, and the company reinforced its position in Latin America.

In 1979 Inco ElectroEnergy continued to concentrate efforts on its principal businesses and divested minor product lines.

Exide Corporation

During the year Exide Corporation established its headquarters in Philadelphia, Pennsylvania. This consolidation was part of the reorganization that streamlined the subsidiary to group automotive, industrial and specialty operations.

United States and Canadian automobile battery unit volume declined, but sales were up 4 per cent from 1978 principally as a result of higher lead prices.

A new automotive battery, the Exide Edge*, is lighter in weight than its predecessors, provides greater capacity and has greater cranking ability. The Exide Edge is the most powerful battery of its size on the market.

A new electric vehicle (EV) battery was introduced in 1979. The PV—23 lead-acid unit is more powerful than its predecessor and provides faster acceleration.

Exide industrial battery sales rose

The armature baking process for electric motors at Universal Electric's Owosso, Michigan operations.

*Trademark of Inco ElectroEnergy Corporation

to record levels, increasing 36 per cent over 1978.

A new industrial battery plant was opened in Woodstock, Ontario to serve the growing Canadian market. The Scarborough, Ontario plant will be phased out.

Exide Electronics Corporation

The newly-formed Exide Electronics Corporation shipped and installed its first 415 Hz static frequency charger in 1979. This equipment provides power for large, modern computer mainframes using improved techniques.

A new line of inverters for emergency lighting and minicomputer applications was developed. The Linebacker* utilizes a new high frequency transistor technology resulting in small size and low cost.

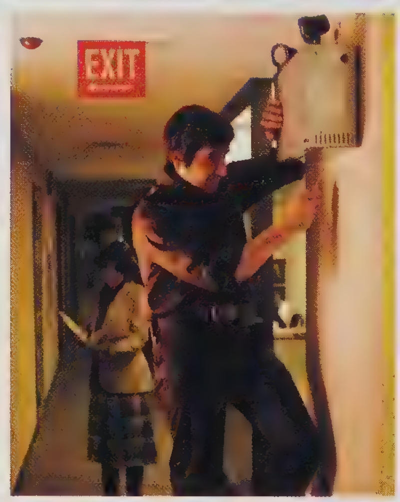
Exide Electronics completed a 55,000 square foot expansion at its Raleigh, North Carolina plant, which increased capacity from 30 to 55 UPS systems per month.

A new plant was opened in Bridgewater, U.K., and Exide Electronics' Canadian operations were expanded.

Ray-O-Vac Corporation

Sales were up 9 per cent in the United States, and worldwide sales experienced a strong increase.

During the year, the Ray-O-Vac Corporation restructured its organization to compete more effectively in worldwide markets for dry cells and portable lighting devices. The reorganization established a new, worldwide button cell division titled the Micro Power Group; placed greater emphasis on sales to and relationships with the manufacturers of devices that use dry cells; focused on consumer brand marketing in North America; and intensified technology programs aimed at product innovation,



*Trademark of Inco ElectroEnergy Corporation

improved manufacturing processes and cost reductions.

In response to rapidly increasing demand for alkaline manganese batteries in North America, Ray-O-Vac's Fennimore, Wisconsin plant was expanded.

As well, a new 154,000 square foot plant in Kinston, North Carolina was completed to manufacture plastic lighting devices. Production is scheduled to begin in early 1980.

Universal Electric Company

Universal Electric motor sales for 1979 were 14 per cent higher than 1978. Record sales were attributed to two markets, the garage door opener industry and the ventilating business.

Universal introduced a new energy efficient permanent magnet motor with more power in a smaller package.

Technology

Each subsidiary company manages its own engineering and development programs and maintains appropriate staff and facilities. Advanced battery research is conducted at Inco Limited's corporate laboratories.

Research on a zinc-air miniature battery system was completed in 1979, and commercial production is scheduled for 1980. This system is intended for powering small electronic devices.

Two energy related battery research contracts were granted in 1979 to Exide by the U.S. Department of Energy. They include work on the Vibrocel* nickel-zinc battery for use in electric vehicles and the lead-acid battery for load-leveling applications.

Exide Electronics developed a UPS system for the U.S. Social Security Administration. It is the world's largest uninterruptible power supply system, rated at 8000 KVA.

Universal Electric continued its on-going development program to increase efficiency of its motors. Since 1975, Universal has increased efficiency 42 per cent over previous models.

Occupational safety and health and environment

Inco ElectroEnergy is in substantial compliance with the regulations of both the Occupational Safety and Health Administration (OSHA) and the Environmental Protection Agency (EPA). The OSHA lead standard is scheduled to become increasingly stringent over the next four years. However, its validity is currently being determined by the U.S. Court of Appeals. If the standard is upheld, compliance will require substantial future investments by all storage-battery manufacturers.

Industrial relations

Eighteen labor contracts with unions representing employees in the United States and Canada were concluded by Inco ElectroEnergy during the year. Three settlements were preceded by strikes.

Elsewhere, two contracts were concluded, one of which followed a short strike.

Employees

At year-end, Inco ElectroEnergy had 18,751 employees compared with 18,410 on December 31, 1978. Of these, 11,490 were employed in the United States, 896 in Canada, and 6,365 in 20 other countries.

Top: Dramatic illustration of one of Exide's maintenance-free automobile batteries.

Bottom left: Ray-O-Vac introduced six new sizes of button cell batteries. These smaller and thinner cells have a wide range of applications.

Bottom right: The Light Guard*, produced by Exide Electronics Corporation, provides emergency lighting for industrial and consumer use.

Officers

Inco ElectroEnergy Corporation

David C. Dawson
President and Chief Executive Officer

Richard T. Nalle, Jr.
Senior Vice-President

Lawrence S. Driever
Vice-President, Administration

Samuel A. Stewart
Director, Financial Services

Howard J. Strauss
Vice-President, Operations and Engineering

Dyer S. Wadsworth
Vice-President and Chief Counsel

Principal Operations

Benno A. Bernt
President, Ray-O-Vac Corporation, Madison, Wisconsin

Robert Kent
President, Exide Corporation, Philadelphia, Pennsylvania

Warren G. Mang
President, Exide Electronics Corporation, Philadelphia, Pennsylvania

Bruce C. Nash
President, Universal Electric Company, Owosso, Michigan

Principal properties, plants, laboratories

Headquarters

5 Penn Center Plaza, Philadelphia, Pennsylvania 19103, U.S.A.

75 plants in 21 countries

Batteries and related electrical and electronic products
29 plants in the U.S.; 4 in Canada and Japan; 3 in Brazil; 2 each in Colombia, Greece, Guatemala, Mexico and Venezuela; and one each in the following countries: Austria, Dominican Republic, India, Iran, Nicaragua, Peru, South Africa, Spain, Sweden, United Kingdom, West Germany and Zaire

Electric motors
4 plants in the U.S.; one in India, and one in the United Kingdom

Plastics and others
6 plants in the U.S., one in the United Kingdom

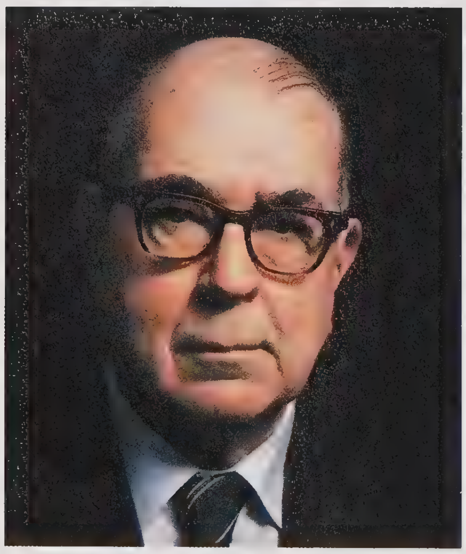
*Trademark of Inco ElectroEnergy Corporation

FORMED METAL PRODUCTS GROUP

Operating highlights

Operating earnings ($millions)	**1979**	1978
Net sales to customers	**$553**	$429
Intersegment sales	**7**	9
Total	**560**	438
Costs and expenses	**510**	413
Operating earnings, including equity in affiliates	**$ 50**	$ 25

Sales by market ($millions)				
Transportation				
Aerospace	**$156**	**28%**	$ 96	22%
Other	**54**	**10**	45	11
Total	**210**	**38**	141	33
Process industries	**138**	**25**	118	28
Power and utilities	**86**	**16**	70	16
Consumer durables	**69**	**12**	65	15
Other	**50**	**9**	35	8
Net sales to customers	**$553**	**100%**	$429	100%



John H. Page
President, Formed Metal Products Group

Results for the Formed Metal Products Group (FMPG) improved significantly during 1979 due primarily to market demands for gas turbines, environmental control equipment and high performance alloys in the chemical and energy fields. The Group ended the year with a healthy backlog of orders.

Sales reached a record high of $553 million, an increase of nearly 29 per cent over 1978. Operating earnings doubled from $25 million in 1978 to $50 million in 1979 – a welcome improvement, but not yet a satisfactory return on investment.

Huntington Alloys, Inc.
Net sales of $301 million were up 29 per cent from 1978. Profit performance was adversely affected by the difficulty in realizing higher prices rapidly to compensate for the very sharp rise in the cost of materials.

Deliveries of products during the year reached 72 million pounds, compared with 1978 deliveries of 65 million pounds. The value of open orders at the end of 1979 was $247 million. This was unevenly distributed over the product and alloy range, but was some 30 per cent higher in volume than at the end of 1978. Markets with the best sales potential continue to be the power industry and high-technology equipment in energy production, aircraft gas turbines and pollution control equipment.

To increase product flow and reduce production time, a new computer-controlled materials flow system was installed at Huntington Alloys.

An interest was acquired in a distribution and manufacturing company in Brazil to expand Huntington Alloys' marketing operations in South America.

Henry Wiggin & Company Limited
Net sales of $134 million were up 24 per cent from 1978. Product deliveries in 1979 were 29 million pounds, about the same level as in 1978.

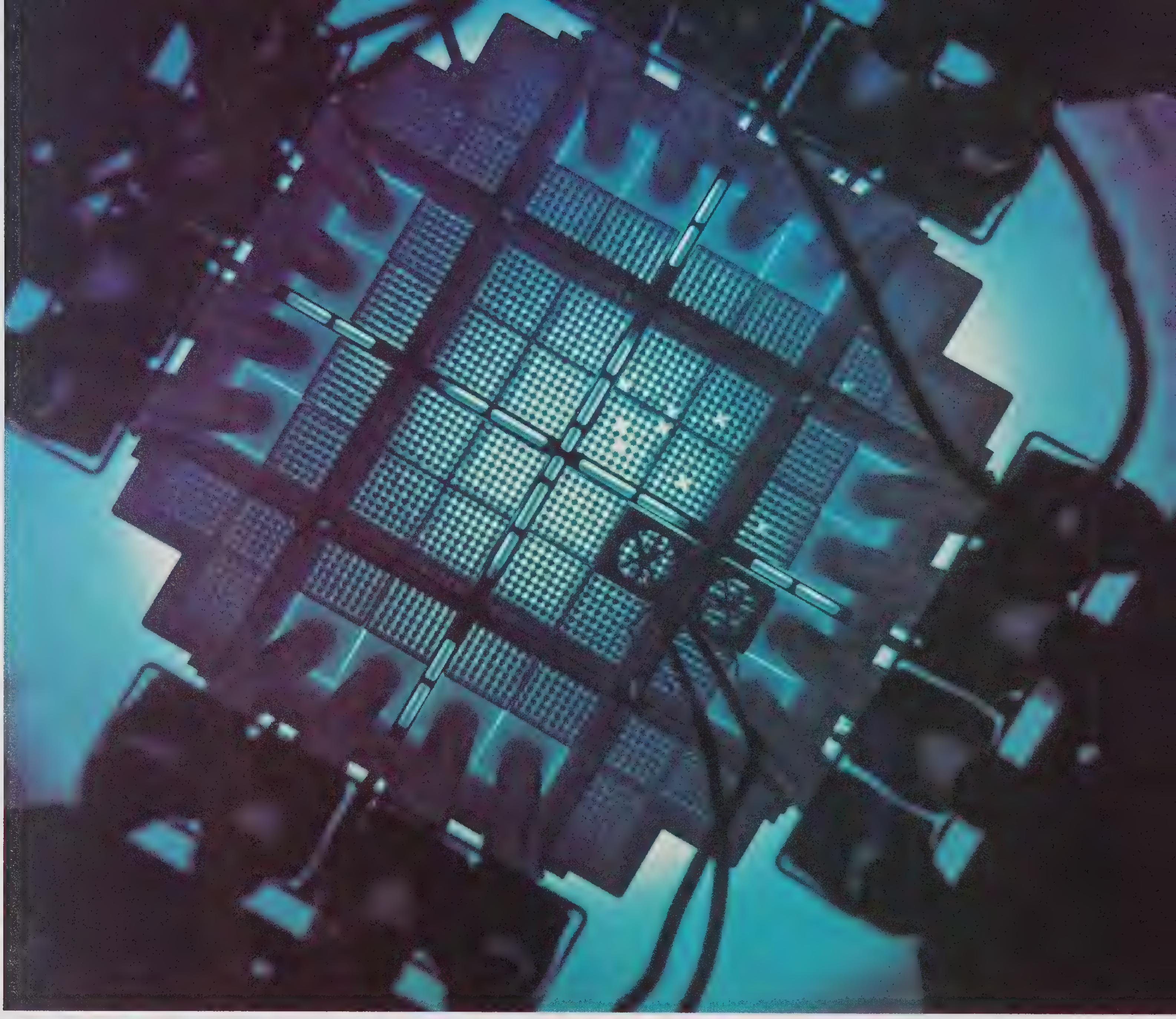
The backlog of open orders at the end of 1979 reflected strong demand for aero engine products and stood at a record level of $136 million.

Capital investments included the acquisition of facilities for additional melting capacity to match rolling capabilities. These facilities will also permit significant cost savings in recovery of revert metals.

To improve market coverage in Europe, Wiggin invested in distribution companies in France and Switzerland.

Daniel Doncaster & Sons Limited
Net sales in 1979 were $110 million, an increase of 36 per cent from 1978. Value of the backlog of open orders at the end of 1979 was some $153 million, significantly higher than at year-end 1978, reflecting the exceptional increase in Doncasters' turbine components business in the aero engine and industrial gas turbine industries.

Marking identification codes on every ring is part of rigorous quality control procedures at Daniel Doncaster & Sons Limited.



To support this surge in business and to provide long-range capability to service the market, new facilities for the manufacture of flash butt-welded rings were installed in 1979, and a capital program is underway to expand and modernize facilities for manufacturing other turbine components.

The company continued market development activities aimed at broadening its sales base in Europe, North America and Scandinavia. In addition, a new subsidiary, Doncaster Special Alloy Products Limited, was established to coordinate company skills and experience in promoting sales of special alloy products in United Kingdom and export markets.

Canadian Alloys

The new $25 million Canadian Alloys rolling mill in Walden Industrial Park, Ontario was dedicated in September 1979 by Douglas C. Frith, Chairman of the Regional Municipality of Sudbury. The mill produces nickel and copper-nickel strip for the coinage market using a new process developed by Inco.

Commercial quantities of products have been produced and trial lots sold to mints for coinage.

Daido Special Alloys Ltd.

Sales by Daido Special Alloys Ltd., equally owned by Inco and Daido Steel, Japan totalled $13 million in 1979, more than double the 1978 sales level.

A light-water test reactor core (top). Critical components in all types of nuclear reactor designs rely on high-nickel alloys.

Some 6,700 visitors turned out for the open house held at the new Canadian Alloys Division rolling mill at the Walden Industrial Park near Sudbury, Ontario.

This growth results from increasing demands for high-nickel alloys produced by Huntington Alloys and Henry Wiggin, as well as FMPG alloys melted and fabricated by Daido Steel.

Industrial relations

Operating activities at Daniel Doncaster & Sons Limited were seriously affected by strikes in the road transport and engineering industries.

At Henry Wiggin & Company Limited, 120 craftsmen and maintenance workers commenced a strike action in July and returned to work in October. Despite the strike the plant continued production. Annual contract negotiations with all union groups were concluded satisfactorily at the beginning of November 1979.

At Huntington Alloys two long term labor agreements with production and maintenance employees are in effect. One, involving 1,530 employees, expires December 1980. The other affecting 270 employees expires April 1981.

Officers

Effective January 1, 1980 John H. Page was elected President of the Formed Metal Products Group, succeeding Harold F. Hendershot who is retiring. Mr. Page continues as President of Inco United States, Inc.

Richard T. Doncaster retired February 28, 1979 from his position as Chairman of Daniel Doncaster & Sons Limited and was succeeded by Anthony T. Shadforth.

Benjamin W. Durrant and John L. Shaw were elected Vice-Presidents of FMPG effective January 1, 1980. Mr. Durrant had been General Manager, Marketing and Director of Henry Wiggin & Company Limited. Mr. Shaw had been Director, Planning and Administration of FMPG.

William F. Bissett was elected President of Huntington Alloys, Inc., effective January 1, 1980, succeeding Robert W. Simmons who is retiring.

Employees

At year-end 1979, the Formed Metal Products Group had 8,489 employees, compared with 8,676 on December 31, 1978. Of the total, 5,492 were employed in the United Kingdom, 2,924 in the United States and 73 in other countries.

Officers

Formed Metal Products Group

John H. Page
President

Benjamin W. Durrant
Vice-President

John L. Shaw
Vice-President

Principal Operations

William F. Bissett
President, Huntington Alloys, Inc.
Huntington, West Virginia

Derek O. Herbert
Deputy Chairman and Managing Director
Henry Wiggin & Company Limited, Hereford, England

I. David Balchin
Group Managing Director
Daniel Doncaster & Sons Limited, Sheffield, England

C. Bruce Goodrich
General Manager, Canadian Alloys, Lively, Ontario

Saburo Minato
President, Daido Special Alloys Ltd., Tokyo, Japan

Kevin H. Belcher
Managing Director, International Nickel Australia Limited, Melbourne, Australia

Principal properties, plants and laboratories

Rolling mills
Huntington, West Virginia and Burnaugh, Kentucky, U.S.A.; Hereford, England; Lively (Sudbury), Ontario

Forging plants
Sheffield, Hull, Dudley, Leeds and Oldham, England; Blaenavon, Wales

Research and development laboratories
Huntington, West Virginia, U.S.A.; Hereford and Sheffield, England

OTHER BUSINESS

Inco Safety Products Company
Sales for 1979 were $35 million, a record level, and 16 per cent higher than in 1978. Profit performance was strong and significant investments were made to reduce product costs and to produce new and improved products.

INMETCO
The International Metals Reclamation Company, Inc., which converts waste from specialty steel companies into a stainless steel remelt pig, gradually increased shipments to customers in 1979.

While progress in bringing the plant on stream was slower than expected, acceptance of the company's product has been very satisfactory.

INMETCO, located at Ellwood City, Pennsylvania, and its subsidiary, the Pittsburgh Pacific Processing Company (PPPC), represent Inco's initiative to apply profitably its technology to the rapidly growing metals and related recycling fields.

Sales and earnings of PPPC continued to increase in 1979. The company's advanced binder and briquetting technology, coupled with INMETCO's technology, provide industry with solutions to many long standing problems of solid waste disposal and recovery of metals.

Growth from internal development
Business activity of MPD Technology, formed to manage new ventures based on Inco's research technology, was encouraging in 1979. Sales, while still small, increased fourfold.

Sales included:

NOVAMET* metal flake for the manufacture of industrial paints requiring high heat and corrosion resistance and an attractive appearance;

CAPREZ*-DPP, a directly plateable plastic, for consumer and automotive applications;

MA9051, a mechanically-alloyed aluminum alloy for evaluation in aircraft structures, diesel engines, heat exchangers, compressor blades and lightweight armor plate;

HYSTOR* metal hydride alloys for energy storage and conversion and in prototype systems for the recovery of waste heat and vented hydrogen;

MAXORB* strip for the selective absorption of solar energy;

SKYSORB*, a colored stainless steel solar heating panel having long term durability and selectivity for absorption of solar radiation.

Venture capital
Inco's venture capital investments, approximating $9 million in book value at year-end, appreciated significantly during the year.

One of Inco's current venture capital investments is a 24 per cent ownership interest in Biogen N.V., a company engaged in recombinant DNA technology. Biogen recently announced the achievement of laboratory production of human leukocyte interferon. Interferon is potentially important in the treatment of a wide range of viral infections and possibly some forms of cancer.

While another shareholder in Biogen holds commercialization rights relative to interferon, Inco possesses rights to fund the development of future projects undertaken by Biogen relating to certain fields of interest and to receive licences and other commercialization rights covering developments arising out of such projects.

LIC Industries, Inc. will apply its proprietary laser technology to the development of improved industrial chemical processes.

Oil and gas
Late in the year a modest program was launched in Alberta to examine opportunities in the hydrocarbon field. During 1980 an office will be opened in Calgary, and a more

*Trademark of MPD Technology, an Inco company

This mini-leaching circuit at the J. Roy Gordon Research Laboratory in Ontario is being used to develop a process to recover cobalt from by-products of Sudbury's Iron Ore Recovery Plant.

Right: Inco has well-equipped welding research laboratories.

substantial presence will be established in Alberta.

Inco continues to hold 4.5 per cent of the common shares of Panarctic Oils Ltd., which is involved in oil and gas ventures in the Canadian Arctic islands.

Results of exploration ventures in Central America were disappointing, and Inco's activities in this area will likely terminate in 1980.

Ocean mining

The consortium of equal partners, including Inco and companies from the United States, Germany and Japan, continued to study the commercial feasibility of recovering metals from deep sea manganese nodules.

Corporate R & D

Work continued on battery systems which might be useful in electric vehicles. Inco's multifoil nickel electrodes have been found by independent organizations to increase the specific energy capacity of such batteries.

Two new forms of mechanically-alloyed aluminum have been developed for use in aircraft.

Inco has obtained an option to acquire rights to a novel hot-sheet rolling process for titanium and superalloys. Development will continue in 1980 at the Inco Research and Development Center at Sterling Forest, New York.

Corrosion research responded to major new markets emerging for nickel-containing alloys for modern power plants, deep sour natural gas wells, coal processing and polymer production.

A program on the behavior of alloys in the technology of deriving energy from the ocean was begun at Inco's LaQue Center for Corrosion Technology in North Carolina.

IN-939, a nickel-base, highly corrosion-resistant alloy, has now been used to replace more expensive cobalt-base alloys for vanes and blades in industrial gas turbines.

Commercial interest in MA6000E among aircraft and industrial turbine builders has continued to grow. This mechanically-alloyed superalloy surpasses all others in its combination of high strength and corrosion resistance at high temperatures. Commercial application of other mechanically-alloyed materials, MA754 and MA956 for turbine manufacture, continues to expand.

During the year Inco's European Research and Development Centre celebrated its 50th anniversary at the Birmingham, U.K. site. This occasion demonstrated the Company's long-standing commitment to technology leadership.

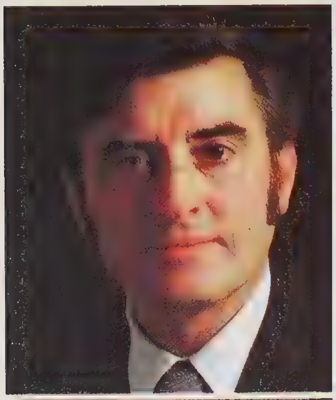
Reclamation operations
Inmetco, Ellwood City, Pennsylvania, U.S.A.
Pittsburgh Pacific Processing Company, Pittsburgh, Pennsylvania, U.S.A.

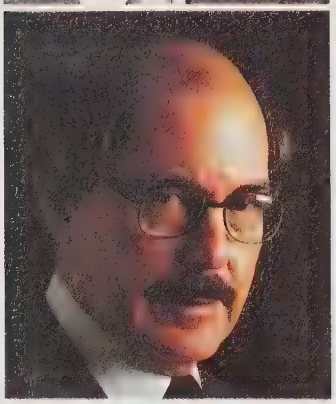
Research and development centres
Sterling Forest, New York, U.S.A.
Wrightsville Beach, North Carolina, U.S.A.
Birmingham, England

Safety products
7 plants in the U.S., one in Canada, one in Mexico

Above: Resource reclamation research at Inco's laboratories seeks to recover valuable metals from industrial effluents.

Right: The tubes of this ethylene pyrolysis furnace are made from extruded nickel-chromium-iron alloy, one of the many alloy systems developed by Inco technologists.





The Company's Senior Vice-Presidents (and their corporate responsibilities) are, from top: Ian McDougall (finance); William Steven (development and technology); and Ashby McC. Sutherland (corporate affairs).

J. Peter Gordon, who had been a Director since December 1973, resigned from the Board of Directors on December 3, 1979.

Albert P. Gagnebin retired from the Board on February 4, 1980. Mr. Gagnebin, who was Chairman of the Board from April 1972 to January 1974, and former President of the Company, had served as a member of the Board for nearly 15 years. He started his career with Inco in 1930.

On February 4, 1980, the following were elected to the Board:

Edmund B. Fitzgerald, Managing Director of Hampshire Associates and former Chairman and Chief Executive Officer of Cutler-Hammer Inc.

Walter F. Light, President and Chief Executive Officer of Northern Telecom Limited;

Donald J. Phillips, President and Chief Executive Officer of Inco Metals Company.

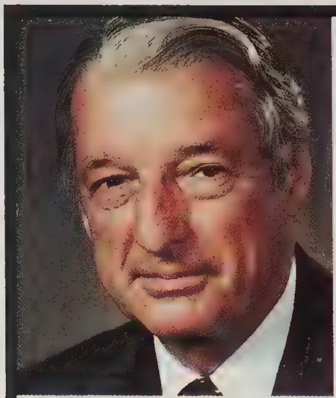
Employees

On December 31, 1979, Inco Limited employed a total of 53,460 people, compared with 52,581 at year-end 1978. The number of employees in each of the Company's major sectors is reported in their respective sections of this Report.

Shareholders

At year-end 1979, the Company had 74,541 Common Shareholders of record and 1,994 Preferred Shareholders of record, compared with 75,067 Common Shareholders of record and 2,041 Preferred Shareholders of record at year-end 1978.

According to the Company's records, 72 per cent of the shareholders had addresses in Canada, 26 per cent in the United States and 2 per cent elsewhere. Of the shares having general voting rights, the Common Shares and Series B Preferred Shares, Canadian residents of record held 62 per cent, United States residents of record 23 per cent, and residents of record in other countries 15 per cent.



John McCreedy, Vice-Chairman and a Director of Inco Limited, died on December 7, 1979. He joined Inco at Copper Cliff in 1949 and, prior to his election as Vice-Chairman in June of 1979, had been Chairman and Chief Executive Officer of Inco Metals Company. At the time of his death, he was President of The Mining Association of Canada and a member of The National Advisory Committee on The Mining Industry. He also was widely known as a former player with the Toronto Maple Leafs of the National Hockey League.

FINANCIAL FOLIO

Management's Statement on Financial Reporting

The information and representations in this Annual Report have been prepared by management. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments. The financial information presented throughout this Report is consistent with the data presented in the financial statements.

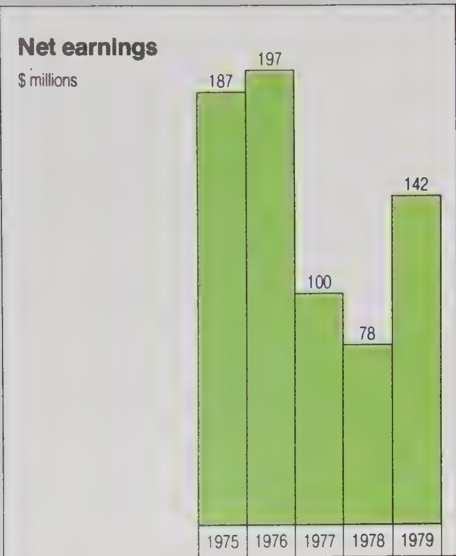
Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their examination of the consolidated financial statements appears on page 26, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel, our internal auditors and our independent auditors meet with the Audit Committee of the Board of Directors at least four times a year to report on accounting, auditing, internal accounting control and financial reporting matters. The Audit Committee also has other duties which are described on page 38.

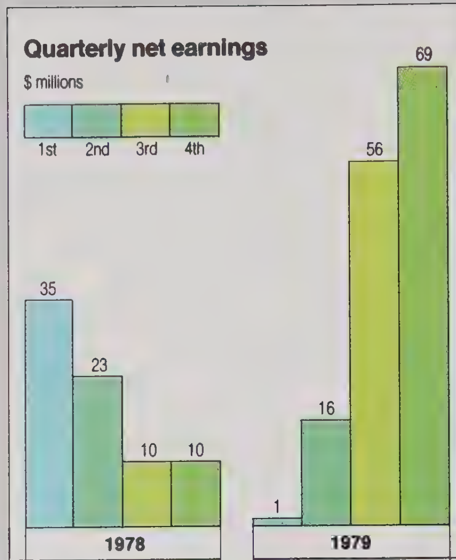
The consolidated financial statements in this Annual Report have been reviewed and approved by the Board of Directors.

J. E. Carter
Chairman and Chief Executive Officer

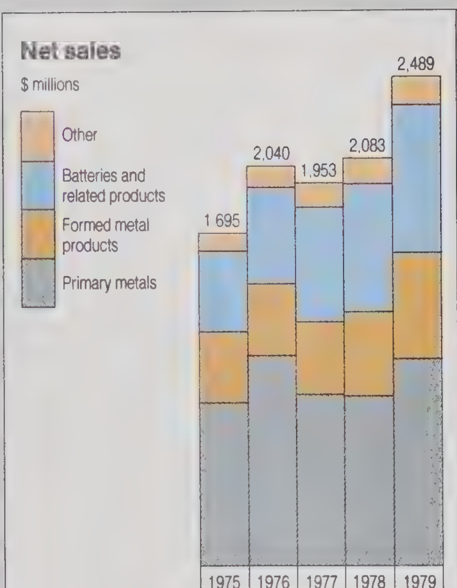
Ian McDougall
Senior Vice-President
(Chief Financial Officer)



	1975	1976	1977	1978	1979
Per common share $	2.51	2.64	1.24	.77	1.58



	1978 1st	1978 2nd	1978 3rd	1978 4th	1979 1st	1979 2nd	1979 3rd	1979 4th
Per common share $	.40	.24	.06	.07	(.06)	.13	.67	.84



	1975	1976	1977	1978	1979
Primary nickel	569	762	558	615	807
Refined copper	194	227	211	135	115
Precious metals	44	57	63	81	87
Other primary metals	21	31	37	35	45
Total primary metals	828	1,077	869	866	1,054
Formed metal products	370	365	377	429	553
Batteries and related products	413	486	585	655	744
Other products	84	112	122	133	138
Total	1,695	2,040	1,953	2,083	2,489

Nickel and copper deliveries

Pounds in millions	1975	1976	1977	1978	1979
Primary nickel and intermediates	285	354	257	319	332
Nickel contained in formed metal products	66	56	55	58	62
Total nickel	351	410	312	377	394
Copper	335	356	341	225	129

Summary of Operations

1979 results compared with 1978

Net earnings Net earnings in 1979 were $141.7 million, or $1.58 a common share after allowance for preferred dividends of $23.3 million, compared with $77.8 million in 1978, or 77 cents a common share after allowance for preferred dividends of $20.5 million. The improvement results primarily from increased prices for primary metals and formed metal products, and a $43.4 million credit resulting from a tax change in the United Kingdom. These benefits were partially offset by increased charges, consisting principally of interest expense, applicable to the Company's Guatemalan and Indonesian projects, a higher level of expenses attributable to the Sudbury strike, which began on September 16, 1978 and was settled on June 3, 1979, and the adverse effect of currency translation adjustments. A review of quarterly earnings in these two years depicts in even sharper detail the recovery in the Company's earnings performance in 1979. Earnings were under downward pressure throughout 1978 and into the early part of 1979, reflecting steady deterioration in nickel prices compounded by the Sudbury strike expenses and the start of expensing interest on the borrowings of the Guatemalan and Indonesian projects. Nickel prices began to strengthen towards the end of the first quarter of 1979 and further improved over the course of the year. This recovery in nickel prices, coupled with higher copper, cobalt and precious metals prices led to the improved earnings in the latter part of the year. The credits resulting from the tax change in the United Kingdom improved earnings by $6.6 million in the second quarter, $24.1 million in the third quarter, and $12.7 million in the fourth quarter of 1979.

Net sales Net sales for the year were $2,489 million, or 19 per cent above 1978. Primary metals sales were $1,054 million, compared with $866 million in 1978. The increase of 31 per cent in primary nickel sales resulted principally from improved prices. The Company's average net price realized for its primary nickel products, including intermediate products, was $2.43 a pound in 1979, compared with $1.98 a pound in 1978. Intense competition in the nickel market resulted in a decline in nickel prices in 1978. In 1979, however, the nickel market improved due to strong demand, particularly in the stainless steel sector. The Company's average net price realized for copper products increased from 61 cents a pound in 1978, to 91 cents a pound in 1979; deliveries of copper, however, declined by 43 per cent in 1979. Copper is produced principally from the Company's mines in Ontario and was not available for sale during most of the period of the Sudbury strike. The prices of cobalt and precious metals increased substantially in 1979, but deliveries were lower due to the Sudbury strike.

Sales of formed metal products were $553 million in 1979, compared with $429 million in 1978. The increase of 29 per cent reflects both higher deliveries and improved prices, primarily resulting from the increased demand for these products in the turbine, environmental control equipment, chemical and energy fields.

Sales of batteries and related products were $744 million in 1979, compared with $655 million in 1978. The increase reflects mainly higher prices, although cost increases, particularly for lead, could not be fully recovered due to competitive conditions.

Costs and expenses

$ Millions	1975	1976	1977	1978	1979
Cost of sales and operating expenses	1,143	1,402	1,488	1,616	1,799
Selling, general and administrative expenses	157	184	204	214	244
Research and development	39	43	50	42	40
Exploration	27	34	23	14	14
Interest	49	66	66	76	134
Currency translation adjustments	(14)	(2)	(18)	(15)	13
Total	1,401	1,727	1,813	1,947	2,244

Exchange rates

U.S.$	1975	1976	1977	1978	1979
Canadian dollar					
Beginning of year	1.009	.984	.991	.914	.843
End of year	.984	.991	.914	.843	.856
Average for year	.983	1.014	.941	.877	.854
Pound sterling					
Beginning of year	2.346	2.024	1.700	1.917	2.042
End of year	2.024	1.700	1.917	2.042	2.219
Average for year	2.222	1.805	1.745	1.920	2.117

Costs and expenses Costs and expenses continued to reflect increases in labor, supply and energy costs. Cost of sales and operating expenses also reflect higher Sudbury strike expenses and excess production costs relative to the Indonesian project. Sudbury strike expenses increased from $61 million in 1978 to $76 million in 1979. Strike expenses are those ongoing costs, such as employment costs of salaried staff at Sudbury and depreciation, which normally are treated as production costs and charged to inventory. In the absence of production because of the strike, however, these costs were expensed. Technical problems encountered in starting up the Indonesian project resulted in lower-than-planned production in 1979. Costs in excess of those normally attributable to the related production amounted to $25 million and were expensed.

Interest expense increased from $76 million in 1978 to $134 million in 1979 mainly as a result of interest expense on the borrowings related to the nickel projects in Guatemala and Indonesia. The expensing of interest with respect to the Guatemalan project commenced in June 1978, and with respect to the Indonesian project commenced in August 1978 for Stage I and in January 1979 for Stage II. Prior to these dates, interest had been capitalized while the projects were under construction.

Currency translation adjustments reduced earnings by $13 million in 1979 while such adjustments increased 1978 earnings by $15 million. The unfavorable currency translation adjustments in 1979 reflect principally an appreciation in value of the pound sterling and the Canadian dollar in relation to the U.S. dollar.

Income and mining taxes Income and mining taxes increased from $87 million in 1978 to $138 million in 1979. The effective income and mining tax rates were 49.4 per cent in 1979 compared with 52.8 per cent in 1978. The lower effective income and mining tax rate in 1979 results from tax changes in the United Kingdom and Canada, largely offset by the effect of increased losses relative to the nickel projects in Guatemala and Indonesia. Effective from the year 1973, legislation in the United Kingdom provided tax relief on increases in the value of inventories, subject to recapture if such value declines. Accordingly, tax payments have been reduced each year, but deferred tax liabilities were established simultaneously to provide for the possibility of recapture. Legislation enacted in 1979 removed such recapture for the years 1973 and 1974 and limited to six years the period during which tax relief on increases in the value of inventories occurring subsequent to 1974 could be recaptured if such value declines. As a result, income and mining taxes in 1979 were reduced by $43.4 million, of which $25.7 million represents the reversal of deferred tax liabilities established in prior years.

Two changes in Canadian tax legislation reduced the Company's taxes in 1979. The Province of Manitoba replaced its two-tiered mining tax system with a reduced single tax rate retroactive to January 1, 1979, and the Province of Ontario removed the two highest marginal mining tax rates effective April 11, 1979.

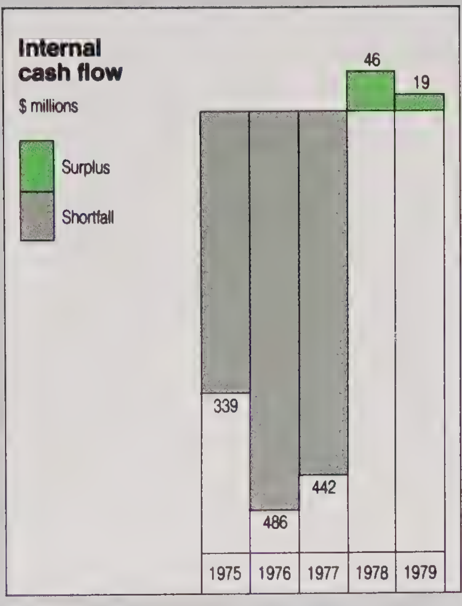
No tax benefit is recognized relative to the losses incurred by the Company's nickel projects in Indonesia and Guatemala. Such losses can be carried forward indefinitely to offset taxable income of the respective projects in future years.

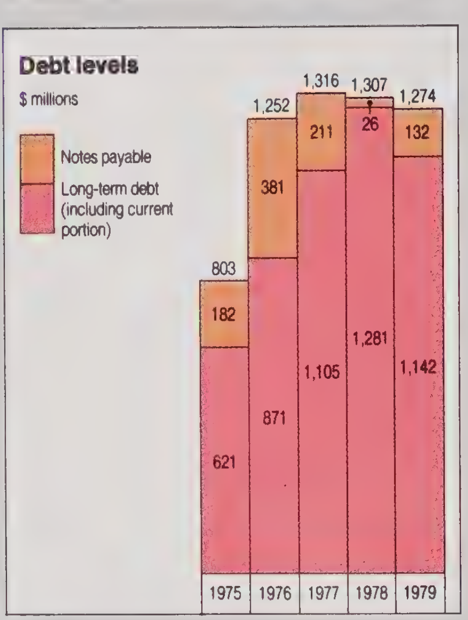
1978 results compared with 1977

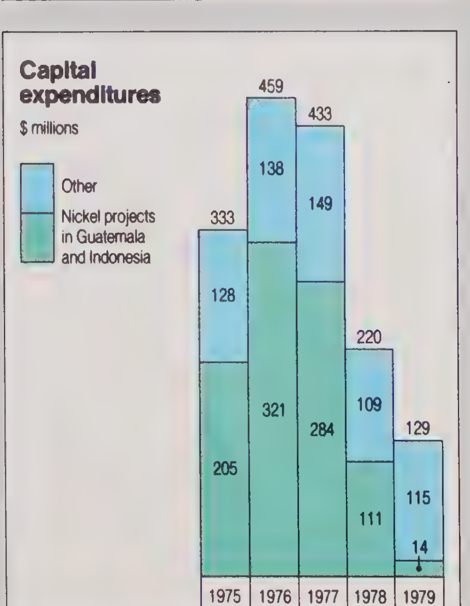
Net earnings Net earnings in 1978 were $77.8 million, or 77 cents a common share after allowance for preferred dividends of $20.5 million, compared with $99.9 million in 1977, or $1.24 a common share after allowance for preferred dividends of $7.5 million. Major factors contributing to this decline were costs and expenses attributable to the Sudbury strike, significantly lower prices for primary nickel, and charges applicable to the Guatemalan and Indonesian projects, partially offset by a substantial increase in nickel deliveries and higher prices for platinum-group metals and cobalt.

Net sales Net sales for the year were $2,083 million, or seven per cent above 1977. Primary metal sales were $866 million, compared with $869 million in 1977. Primary nickel sales increased by 10 per cent on the strength of higher deliveries resulting from increased demand, particularly from increased production of stainless steel. However, the nickel market remained extremely competitive and prices continued to decline. The Company's average net price realized for its primary nickel products, including intermediate products, was $1.98 a pound in 1978, compared with $2.17 a pound in 1977. Copper sales fell about 36 per cent principally as a result of the reduced production attributable to the Sudbury strike. Since the Company had only small quantities of copper available for sale in the fourth quarter of 1978, it could not benefit from the increases in price that became effective during that time. Prices for cobalt and platinum-group metals increased sharply during 1978. Sales of formed metal products were $429 million in 1978, compared with $377 million in 1977. This 14 per cent increase resulted from higher deliveries. Sales of batteries and related products were $655 million in 1978, as compared with $585 million in 1977. The increase is primarily attributable to higher prices, which largely reflect the recovery of increased costs rather than improved profit margins.

Costs and expenses Costs and expenses increased in 1978 reflecting the constant pressure of escalating







labor, supply and energy costs. Cost of sales and operating expenses in 1978 include $61 million attributable to the strike at the Sudbury District facilities. Expenditures for research and development, which had totalled $50 million in 1977, were reduced to $42 million in 1978. Interest expense increased from $66 million in 1977 to $76 million in 1978 mainly as a result of expensing $12 million of interest on certain borrowings related to the nickel projects in Guatemala and Indonesia.

Currency translation adjustments, which in the Company's case arise mainly from fluctuations in the relative values of the Canadian dollar, the pound sterling and U.S. dollar, increased earnings by $15 million in 1978 and by $18 million in 1977.

Income and mining taxes Income and mining taxes were $87 million in 1978 and $75 million in 1977. The effective income and mining tax rates in the two years were 52.8 per cent and 43.1 per cent, respectively. The increased rate reflects several factors. Income subject to mining tax in Ontario in 1978 was greatly reduced by the costs and expenses attributable to the Sudbury strike. As a result, a larger proportion of income in 1978 was subjected to the higher mining tax rates prevailing in Manitoba. Additionally, the effective tax rate was increased by a larger amount of taxable exchange gains in 1978 compared with 1977. Such exchange gains do not enter into the determination of pretax earnings as expressed in U.S. dollars. During 1978, the Company began to expense interest relative to the Guatemalan project and Stage I of the Indonesian project. No tax benefit has been recognized on these losses, although such losses can be carried forward to reduce taxable income in future periods. Partially offsetting these effects was the favorable settlement of tax issues relating to prior years.

Other Financial Highlights

Cash flow and financings The improvement in earnings and the continuation in 1979 of the Company's cash conservation measures contributed to a strengthening of the Company's financial position. For the first time since 1976, retained earnings increased appreciably. Again as in 1978, the Company generated a modest internal cash surplus, totalling $19 million in 1979. The Company's total debt declined by $33 million from $1,307 million at year-end 1978 to $1,274 million at year-end 1979. Long-term debt declined by $152 million. Notes payable, however, rose significantly due in large part to the prepayments of long-term debt made during 1979 which were financed, in effect, by short-term borrowings. These prepayments were made in conjunction with the restructuring of the financial arrangements for the projects in Indonesia and Guatemala and with the repurchase of the Company's debentures to meet future sinking and purchase fund obligations.

In June 1979, P.T. International Nickel Indonesia, a 97 per cent owned subsidiary, implemented a three-part plan which provided for equity contributions by the Company, the rescheduling of principal payments under a $200 million Eurodollar credit facility and the prepayment of $65 million outstanding under another Eurodollar credit facility. Reduced production levels and depressed nickel prices had impaired the ability of the project's operating cash flow to meet near-term debt service requirements. In December 1979, Exmibal, an 80 per cent owned subsidiary, prepaid $25 million of its senior loans as part of a restructuring of its financial arrangements. The principal amounts prepaid would have otherwise been due, for the most part, in 1980 and 1981.

At the Annual and Special General Meeting of Shareholders held on April 18, 1979, the shareholders authorized the continuance of the Company under the Canada Business Corporations Act and approved a new general by-law, By-law No. 1. The shareholders also approved amendments to the Company's charter which, among other things, removed the then existing limit of 100,000,000 shares on the authorized number of Common Shares of the Company, and fixed the number of the class of authorized Preferred Shares of the Company at 30,000,000 shares.

Capital expenditures Capital expenditures in 1979 declined to $129 million from $220 million in 1978 largely because of reduced expenditures on the

TEN-YEAR REVIEW

	1979	1978	1977	1976	1975	1974*	1973	1972	1971	1970
Summary of operations (in thousands)										
Net sales	**$2,488,500**	2,083,100	1,953,300	2,040,300	1,694,800	1,684,600	1,172,800	900,300	789,200	1,055,800
Cost of sales and operating expenses	**$1,799,600**	1,615,700	1,488,100	1,401,600	1,142,800	956,500	693,300	617,600	541,500	603,500
Interest, net of amounts capitalized	**$ 133,700**	75,900	66,300	66,400	49,400	45,000	42,300	43,800	33,900	17,100
Income and mining taxes	**$ 138,200**	87,100	75,500	150,400	135,200	248,400	120,500	42,600	23,500	121,400
Net earnings	**$ 141,700**	77,800	99,900	196,800	186,900	298,600	225,600	112,100	90,300	207,400
Net earnings applicable to common shares	**$ 118,500**	57,300	92,300	196,800	186,900	298,600	225,600	112,100	90,300	207,400
Per common share	**$ 1.58**	0.77	1.24	2.64	2.51	4.01	3.02	1.50	1.21	2.78
Common dividends	**$ 37,400**	52,200	93,200	119,300	119,300	119,300	89,400	74,500	96,900	104,200
Per common share	**$ 0.50**	0.70	1.25	1.60	1.60	1.60	1.20	1.00	1.30	1.40
Common shares outstanding (weighted average)	**74,762**	74,595	74,593	74,576	74,552	74,541	74,535	74,525	74,499	74,435
Other financial data (in thousands)										
Capital expenditures	**$ 128,800**	219,900	432,800	459,100	332,700	149,200	88,800	125,200	244,200	272,500
Depreciation and depletion	**$ 131,700**	108,600	116,600	113,300	111,000	97,400	76,800	56,300	50,600	37,600
Research and development expense	**$ 40,000**	42,500	50,300	43,100	39,600	34,500	26,700	25,700	27,200	24,600
Exploration expense	**$ 13,900**	14,200	22,400	34,100	26,500	18,200	15,200	13,700	20,600	21,100
Working capital	**$ 943,100**	961,900	826,200	595,300	589,500	648,000	537,800	395,700	387,300	375,800
Net property, plant and equipment	**$2,523,400**	2,540,500	2,436,700	2,119,400	1,785,000	1,560,200	1,395,400	1,402,200	1,351,900	1,167,700
Total assets	**$4,335,400**	4,145,600	4,075,800	3,628,300	3,025,700	2,799,700	2,248,800	2,078,300	2,094,800	1,827,400
Common shareholders' equity	**$1,657,900**	1,566,700	1,561,600	1,562,400	1,484,400	1,416,400	1,236,900	1,100,700	1,062,800	1,067,900
Return on total assets	**3.3%**	1.9%	2.5%	5.4%	6.2%	10.7%	10.0%	5.4 %	4.3 %	11.3%
Return on common shareholders' equity	**7.1%**	3.7%	5.9%	12.6%	12.6%	21.1%	18.2%	10.2 %	8.5%	19.4%
Operating data (in thousands)										
Ore mined — short tons	**9,900**	10,900	19,600	19,800	21,200	22,000	19,700	19,200	27,600	27,700
Nickel production — pounds	**255,000**	267,300	416,700	461,600	458,900	509,600	469,200	401,200	463,400	500,900
Nickel deliveries — pounds	**393,600**	377,400	312,300	409,800	351,100	549,100	517,000	425,100	342,500	518,900
Copper deliveries — pounds	**129,100**	224,600	341,200	356,000	334,600	367,200	327,100	308,200	340,300	348,100
Platinum-group metals and gold deliveries — troy ounces	**326**	468	438	554	301	317	413	452	437	388
Other statistics										
Employees at year end	**53,460**	52,581	56,922	55,767	53,515	48,962	31,311	32,082	36,089	37,313
Common shareholders at year end	**74,541**	75,067	77,875	78,014	84,369	86,795	90,660	92,024	92,217	84,320

* Includes applicable data relating to Inco ElectroEnergy Corporation for the five months since its acquisition effective August 1, 1974.

Guatemalan and Indonesian projects. In 1980 capital expenditures are expected to be approximately $220 million.

Dividends On February 4, 1980, the Board of Directors increased the quarterly dividend from 10 cents to 15 cents a Common Share, payable March 13 to shareholders of record on February 14. The Board of Directors also on the same day declared a quarterly dividend at an annual rate of 8.065 per cent on the Company's floating rate Series A Preferred Shares, payable March 3 to shareholders of record on February 20, and declared a quarterly dividend on the Company's 7.85 per cent Series B Preferred Shares, payable March 3 to shareholders of record on February 14.

Inco Optional Stock Dividend Program Under the Inco Optional Stock Dividend Program which was adopted by the Board of Directors on December 4, 1978, common shareholders have the right to elect to receive a stock dividend in lieu of a cash dividend. On July 19, 1979, the Board adopted an amendment to the plan which stipulates that stock dividends will be valued at a five per cent discount from the market price of the Company's Common Shares. On December 31, 1979, shareholders of about 30 per cent of the Company's outstanding Common Shares were participating in the Program. The Program permits many shareholders to receive tax benefits similar to those previously available to holders of the Company's former Class B Common Shares and also provides common shareholders with a simple and convenient method of obtaining additional Common Shares without payment of brokerage commissions or service charges.

Those who wish to participate or desire additional information should write to Shareholder Services, Inco Limited, at either the Company's Toronto or New York address.

CONSOLIDATED STATEMENT OF EARNINGS (in thousands)

Year ended December 31	1979	1978*
Revenues		
Net sales	**$2,488,543**	$2,083,094
Other income	**35,056**	28,637
	2,523,599	2,111,731
Costs and expenses		
Cost of sales and operating expenses	**1,799,650**	1,615,731
Selling, general and administrative expenses	**243,667**	213,533
Research and development	**40,053**	42,468
Exploration	**13,865**	14,159
Interest, net of amounts capitalized	**133,718**	75,917
Currency translation adjustments	**12,679**	(14,956)
	2,243,632	1,946,852
Earnings before income and mining taxes	**279,967**	164,879
Income and mining taxes	**138,242**	87,070
Net earnings	**141,725**	77,809
Dividends on preferred shares	**23,274**	20,511
Net earnings applicable to common shares	**$ 118,451**	$ 57,298
Net earnings per common share	**$1.58**	$0.77

*Reclassified

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (in thousands)

Year ended December 31	1979	1978
Retained earnings at beginning of year	**$1,408,607**	$1,403,525
Net earnings	**141,725**	77,809
Preferred dividends	**(23,274)**	(20,511)
Common dividends—$.50 per share (1978—$.70 per share)	**(37,380)**	(52,216)
Retained earnings at end of year	**$1,489,678**	$1,408,607

The Explanatory Financial Section on pages 29 through 33 is an integral part of these statements.

AUDITORS' REPORT

To the Shareholders of Inco Limited:

We have examined the consolidated financial statements and explanatory financial section appearing on pages 26 through 33 of this report. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Inco Limited at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

PRICE WATERHOUSE & CO.

Toronto, Ontario
New York, New York
February 14, 1980

CONSOLIDATED BALANCE SHEET (in thousands)

December 31	1979	1978
Current assets		
Cash	$ 37,956	$ 25,940
Marketable securities, at cost (market $36,000,000; 1978 — $67,800,000)	36,018	59,322
Accounts receivable	518,260	394,937
Inventories	1,081,644	985,286
Prepaid expenses	11,548	10,892
Total current assets	1,685,426	1,476,377
Property, plant and equipment	3,794,506	3,705,335
Less — Accumulated depreciation and depletion	1,271,123	1,164,825
	2,523,383	2,540,510
Other assets		
Investments in and advances to affiliates, on an equity basis	62,170	59,627
Miscellaneous securities	23,373	23,702
Charges to future operations	11,344	12,614
Unamortized cost in excess of net assets of business acquired	29,693	32,792
	126,580	128,735
Total assets	$4,335,389	$4,145,622
Current liabilities		
Notes payable	$ 131,731	$ 26,236
Long-term debt due within one year	70,073	56,833
Accounts payable and accrued expenses	415,907	327,790
Income and mining taxes payable	124,594	103,581
Total current liabilities	742,305	514,440
Other liabilities		
Long-term debt	1,072,326	1,223,955
Deferred income and mining taxes	446,000	417,100
Pension benefits	49,493	48,271
Minority interest	19,010	23,508
	1,586,829	1,712,834
Preferred shares issued, $25(Cdn.) par value:		
Series A floating rate — 10,000,000 shares	239,250	239,250
Series B 7.85% — 4,784,090 shares; 1978 — 4,928,515 shares	109,066	112,366
	348,316	351,616
Common shareholders' equity		
Common shares without nominal or par value, issued 75,134,327 shares; 1978 — 74,597,925 shares	107,225	97,089
Capital surplus	61,036	61,036
Retained earnings	1,489,678	1,408,607
Total common shareholders' equity	1,657,939	1,566,732
Total liabilities and shareholders' equity	$4,335,389	$4,145,622

The Explanatory Financial Section on pages 29 through 33 is an integral part of these statements.

Approved by the Board of Directors:

J. Edwin Carter

Charles F. Baird

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (in thousands)

Year ended December 31	1979	1978
Financial resources were provided by		
Net earnings	**$141,725**	$ 77,809
Charges (credits) to earnings not affecting working capital		
Depreciation and depletion	**131,711**	108,601
Deferred income and mining taxes	**28,900**	29,900
Equity in earnings of affiliated companies	**(3,768)**	(3,575)
Amortization of cost in excess of net assets of business acquired	**3,099**	3,099
Currency translation adjustments not affecting working capital	**6,539**	(7,153)
Other — net	**(1,363)**	710
Working capital provided by operations	**306,843**	209,391
Long-term borrowings	**42,785**	287,525
Shares issued in lieu of cash dividends	**10,048**	147
Other — net	**9,926**	7,918
Total	**369,602**	504,981
Financial resources were used for		
Preferred dividends	**23,274**	20,511
Common dividends	**37,380**	52,216
Capital expenditures	**128,848**	219,934
Reduction of long-term debt	**198,916**	76,599
Total	**388,418**	369,260
Increase (decrease) in working capital	**$ (18,816)**	$135,721

Analysis of changes in working capital

Increase (decrease) in current assets		
Cash and marketable securities	**$ (11,288)**	$ 42,237
Accounts receivable	**123,323**	13,280
Inventories	**96,358**	(95,429)
Prepaid expenses	**656**	(1,805)
Total	**209,049**	(41,717)
Increase (decrease) in current liabilities		
Notes payable and other debt	**118,735**	(212,801)
Accounts payable and accrued expenses	**88,117**	(257)
Income and mining taxes payable	**21,013**	35,620
Total	**227,865**	(177,438)
Increase (decrease) in working capital	**$ (18,816)**	$135,721

The Explanatory Financial Section on pages 29 through 33 is an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

This summary of the major accounting policies of Inco Limited and subsidiaries is presented to assist the reader in evaluating the financial statements contained in this Report. These policies have been followed consistently in all material respects for the periods covered in the financial statements.

Principles of consolidation The financial statements consolidate the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States.

Translation of financial statements into United States dollars The financial statements are expressed in United States currency. Cash, accounts receivable, current liabilities, the liability for pension benefits and long-term debt are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable. Revenues, expenses and certain costs are translated at monthly average rates during each year; inventoried costs, depreciation and depletion are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings currently.

Inventories Inventories are stated at the lower of cost or net realizable value. Cost for certain metals inventories in the United States is determined by the last-in, first-out method. Cost for other metals is average production or purchase cost, and for supplies is average purchase cost. Cost for batteries and related products is determined principally on a first-in, first-out basis.

Property, plant and equipment Property, plant and equipment, which includes preproduction costs associated with major new facilities, is stated at cost. Such cost in the case of the Company's mines represents related acquisition and development expenditures.

Depreciation and depletion Depreciation is calculated using the straight-line method and, for the nickel projects in Guatemala and Indonesia, the unit-of-production method based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of 20 years and are subject to annual review. Preproduction costs incurred in the development of the Guatemalan and Indonesian projects are depreciated over 20 years using the unit-of-production method. Depletion is calculated by a method which allocates the related recorded costs ratably to the tons of ore mined. Depletion is the systematic amortization of the recorded cost of the Company's mines and does not represent the decrease, if any, in the value of ore reserves as a result of ore mined.

Cost in excess of net assets acquired The excess of purchase cost over the fair value of acquired net assets, relating to the acquisition in 1974 of Inco ElectroEnergy Corporation (formerly ESB Ray-O-Vac Corporation), is amortized on a straight-line basis over 15 years.

Exploration Expenditures for mineral exploration are expensed as incurred.

Pension plans The Company and its subsidiaries have pension plans covering most employees. Pension expense, which totalled $63,536,000 in 1979 and $56,114,000 in 1978, is calculated, and funded, based on actuarial estimates. The increase in pension expense is due mainly to improved benefits granted to hourly employees in Canada in 1979. Past service costs at December 31, 1979 approximated $200 million, the major portion of which will be charged to operations within the next 15 years. At December 31, 1979, vested benefits exceeded the assets of one major Canadian pension trust fund by approximately $30 million. The aggregate of the assets of all other pension trust funds, at market, and balance sheet accruals exceeded total related vested benefits by approximately $130 million. The liability for pension benefits comprises supplements for pensioners and certain pension liabilities of acquired companies.

Income and mining taxes Deferred taxes are provided for timing differences that exist in reporting depreciation and other expense and revenue items for financial statement and income and mining tax purposes. Investment tax credits are accounted for by the "flow-through" method. Income taxes have not been provided on undistributed earnings of subsidiaries because only a minor portion of such earnings has not been or will not be permanently reinvested.

Net earnings per common share Net earnings per common share is calculated by dividing net earnings less preferred dividends by the weighted average number of common shares outstanding. The common stock equivalents of outstanding stock options do not dilute earnings per common share.

Note 2. Other Income

Other income includes net gains on sales of assets, gains on retirement of long-term debt, interest, dividends, income from equity interests in affiliates and joint ventures, and realized exchange gains and losses which were not material in 1979 and 1978. Included in other income are gains on sales of marketable equity securities of $8,630,000 in 1979 and $9,470,000 in 1978.

Note 3. Inventories

Inventories consist of the following:

December 31	1979	1978
	(in thousands)	
Metals (at average cost)		
Finished and in-process	$ 610,198	$577,756
Supplies	119,057	100,021
	729,255	677,777
Metals (at last-in, first-out cost)		
Finished and in-process	84,950	118,873
Batteries and related products (at first-in, first-out cost)		
Finished and in-process	174,064	111,201
Raw materials and supplies	67,981	50,624
	242,045	161,825
Other products (principally at first-in, first-out cost)	25,394	26,811
Total	$1,081,644	$985,286

During 1979, the quantity of inventories accounted for by the last-in, first-out method was reduced. The resultant liquidation of inventories valued at lower costs prevailing in prior years, as compared with 1979 costs, had the effect of reducing cost of sales and operating expenses by approximately $8,500,000.

Note 4. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31	**1979**	1978
	(in thousands)	
Mines and mining plants	**$1,083,853**	$1,081,645
Processing facilities	**1,578,372**	1,551,697
Other	**447,225**	449,393
Primary metals facilities	**3,109,450**	3,082,735
Formed metal products facilities	**348,336**	337,205
Battery and related product facilities	**232,772**	194,857
Other	**103,948**	90,538
	3,794,506	3,705,335
Accumulated depreciation	**1,002,475**	905,020
Accumulated depletion	**268,648**	259,805
	1,271,123	1,164,825
Net property, plant and equipment	**$2,523,383**	$2,540,510

In 1979 the provision for depreciation amounted to $121,591,000 (1978—$96,702,000) and the provision for depletion amounted to $10,120,000 (1978—$11,899,000).

At December 31, 1979, net property, plant and equipment amounted to $813 million relative to the Indonesian nickel project and $225 million relative to the Guatemalan nickel project, including capitalized preproduction costs of $187 million and $72 million, respectively. The Company believes that, based on current price/cost relationships, these projects, when operating at capacity, will make a positive contribution to operating earnings. Net property, plant and equipment also includes $145 million applicable to standby mines in Canada.

Note 5. Interest Expense

Interest expense, net of amounts capitalized, on long-term debt was $118,598,000 in 1979 and $61,265,000 in 1978. The expensing of interest commenced in June 1978 for the Guatemalan project, and with respect to the Indonesian project commenced in August 1978 for Stage I and in January 1979 for Stage II; such interest expense totalled $65,354,000 in 1979 and $11,617,000 in 1978. Interest capitalized totalled $1,606,000 in 1979, relating to a metals reclamation facility in the United States, and $45,988,000 in 1978, relating principally to the Company's Guatemalan and Indonesian projects.

Note 6. Long-Term Debt

The Company's long-term debt consists of the following (the applicable weighted average interest rates and repayment periods as at December 31, 1979 are shown in parentheses):

December 31	**1979**	1978
	(in thousands)	
Inco Limited		
6.85% U.S. $ Debentures (1983-1993)	**$ 123,820**	$ 143,150
8.625% Cdn. $ Debentures (1981-1991)	**57,194**	58,137
9.25% Cdn. $ Debentures (1981-1990)	**54,784**	56,497
9.0% Eurodollar Debentures (1981-1992)	**93,744**	97,544
8.25% Eurodollar Notes (1984)	**50,000**	50,000
P. T. International Nickel Indonesia		
Eurodollar Bank loans (13.9%) (1980-1989)*	**215,385**	284,231
Export & supplier credits (8.7%) (1980-1989)	**193,243**	188,022
Export & supplier credits (16.1%) (1980-1984)**	**22,608**	26,150
8.0625% U.S. $ Production sharing loan (1980-1986)	**23,400**	27,807
Inco ElectroEnergy Corporation and subsidiaries		
U.S. $ Bank term loan (9.0%) (1981)	**50,000**	50,000
U.S. $ Revolving credit loans (15.5%) (1981)**	**38,000**	25,000
8.5% U.S. $ Senior notes (1985-1997)	**45,000**	45,000
Other (10.1%) (1980-1997)	**19,920**	19,132
Exmibal		
Export & supplier credits (8.7%) (1980-1988)	**38,906**	60,369
9.5% U.S. $ International agency loans (1980-1988)	**12,600**	19,950
Eurodollar Bank loans (15.9%) (1980-1983)*	**9,882**	18,000
U.S. $ Subordinated completion loan	**4,000**	4,000
Inco Europe Limited and subsidiaries		
Sterling Bank loans (15.9%) (1980-1982)*	**28,841**	53,079
Other (9.6%) (1980-2002)	**4,087**	3,838
Other Indebtedness (4.5%) (1980-2002)	**56,985**	50,882
	1,142,399	1,280,788
Long-term debt due within one year	**70,073**	56,833
Long-term debt	**$1,072,326**	$1,223,955

* Interest is based on the London Interbank Offered rate.
** Interest is based on U.S. and Canadian banks' prime commercial lending rates.

The average interest rate on long-term debt at December 31, 1979 was 9.9%. Approximately 30% of the Company's long-term debt carries interest rates that are subject to periodic adjustments based on market interest rates. The long-term debt is payable in the following currencies: 73%—U.S. dollars, 14%—Canadian dollars, 4%—pound sterling, and 9%—other currencies.

In June 1979, P.T. International Nickel Indonesia ("P.T. Inco") implemented a three-part financing plan which provided for additional equity contributions by the Company, the rescheduling of principal payments under a $200 million Eurodollar credit facility, and the prepayment of $65 million outstanding under another Eurodollar credit facility. The plan resulted in the reduction and deferment of the debt service requirements of P.T. Inco.

The Company has not extended a financial guarantee of the debt of P.T. Inco. However, the Company has agreed, subject to force majeure, to provide sufficient funds in the form of equity and senior loans to enable the project company to achieve project completion, which, as defined in the security documents for the project's financing, is not currently forecast to be achieved until the late 1980's. In addition, the Company has agreed to purchase approximately two-thirds of the pro-

ject's production at a formula price based on the price for nickel oxide sinter 75.

In December 1979, Exmibal prepaid $25 million of its senior loans as part of a restructuring of its financial arrangements. The principal amounts prepaid would have otherwise been due, for the most part, in 1980 and 1981.

The Company has agreed to purchase Exmibal's production at a formula price based on the price for nickel oxide sinter 75 with the provision that until the formula price has risen sufficiently to sustain the project or until the senior loans have been repaid in full, the Company will pay variable prices intended to meet Exmibal's operating and debt service costs. The Company has also agreed to make certain payments in respect of Exmibal's long-term debt if Exmibal fails to make payments when due on such debt, in return for which the Company would receive credits against its future purchases of Exmibal's production.

At December 31, 1979, the Company and its subsidiaries had unused committed credit facilities of approximately $330 million. Approximately $295 million of this amount was available for Inco Limited's and Inco ElectroEnergy's commercial paper borrowings in the United States and Canada as well as for general corporate purposes. Included in the latter amount are two revolving term loan facilities totalling $250 million that provide for revolving credits through June 1981, at which time the Company has the option to convert the $250 million to term loans for periods ranging from five to eight years.

Long-term debt maturities and sinking fund requirements for each of the five years through 1984 are: 1980—$70,073,000; 1981—$140,817,000; 1982—$57,041,000; 1983—$ 82,614,000; 1984—$129,765,000. These five year amounts include $192,365,000 for P.T. Inco borrowings and $35,093,000 for Exmibal borrowings.

Note 7. Income and Mining Taxes

The provisions for income and mining taxes were as follows:

Year ended December 31	1979	1978
	(in thousands)	
Current taxes	**$146,742**	$51,970
Current deferred	**(37,400)**	5,200
Future deferred	**28,900**	29,900
Total deferred taxes	**(8,500)**	35,100
Total income and mining taxes	**$138,242**	$87,070
Canada	**$133,311**	$58,284
Other (principally United States and United Kingdom)	**4,931**	28,786
	$138,242	$87,070

The reconciliation between the combined federal-provincial statutory income tax rate in Canada and the effective income and mining tax rate follows:

Year ended December 31	1979	1978
	Percentage of pretax earnings	
Combined Canadian federal-provincial statutory income tax rate	**49.3%**	49.2%
Resource and depletion allowances	**(15.0)**	(16.1)
Adjusted income tax rate	**34.3**	33.1
Mining taxes	**13.8**	18.0
	48.1	51.1
Losses of nickel projects in Guatemala and Indonesia	**13.5**	4.0
Effect of U.K. tax change — prior years	**(9.2)**	—
— current year	**(6.3)**	—
Currency translations	**4.4**	11.1
Tax rate differential outside Canada	**2.7**	0.3
Investment tax credits	**(1.9)**	(4.0)
Inventory allowance — Canada	**(1.4)**	(3.5)
Prior year tax adjustments	**0.9**	(6.9)
Statutory exemptions	**(0.9)**	(3.1)
Other	**(0.5)**	3.8
Effective income and mining tax rate	**49.4%**	52.8%

The lower effective income and mining tax rate in 1979 results from tax changes in the United Kingdom and Canada, largely offset by the effect of increased losses of the nickel projects in Guatemala and Indonesia. Effective from the year 1973, legislation in the United Kingdom provided tax relief on increases in the value of inventories, subject to recapture if such value declines. Accordingly, tax payments have been reduced each year, but deferred tax liabilities were established simultaneously to provide for the possibility of recapture. Legislation enacted in 1979 removed such recapture for the years 1973 and 1974 and limited to six years the period during which tax relief on increases in the value of inventories occurring subsequent to 1974 could be recaptured if such value declines. As a result, income and mining taxes in 1979 were reduced by $43.4 million, of which $25.7 million represents the reversal of deferred tax liabilities established in prior years.

Two changes in Canadian tax legislation reduced the Company's taxes in 1979. The Province of Manitoba replaced its two-tiered mining tax system with a reduced single tax rate effective January 1, 1979, and the Province of Ontario removed the two highest marginal mining tax rates effective April 11, 1979.

No tax benefit is recognized relative to the losses incurred by the Company's nickel projects in Indonesia and Guatemala. Such losses, which have aggregated $105 million since the inception of the projects, can be carried forward indefinitely to offset taxable income of the respective projects in future years. Similarly, unutilized investment tax credits relative to the Indonesian project, which totalled $53 million at December 31, 1979, can be carried forward indefinitely to reduce future tax payments.

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of $446,000,000 in the Consolidated Balance Sheet. The cumulative tax effect of timing differences relating to items of a current nature of $600,000 is included in the current liability for income and mining taxes payable. Investment tax credits reduced income and mining taxes by $5,279,000 in 1979 and $6,629,000 in 1978.

Note 8. Stock Option Plans

The Key Employees Incentive Plan ("1968 Plan") and the 1979 Key Employees Incentive Plan ("1979 Plan") each authorized the granting of options to purchase up to 1,000,000 common shares at prices not less than 100% of their market value on the day the option is granted. The Plans provide that no shares subject to option shall be purchasable after ten years from the date of grant. With respect to stock options, the 1968 Plan terminated in 1978 except as to options then outstanding, and no further options may be granted thereunder. At December 31, 1979, outstanding options for 199,175 shares under these Plans also carry share appreciation rights.

Directors who are not officers of the Company are not entitled to participate in the Plans. Changes during the year 1979 in options outstanding are summarized as follows:

	Number of Shares	
	1979 Plan	1968 Plan
Outstanding at December 31, 1978	—	957,069
Options granted at an average price of $19.47 a share	433,400	—
Exercised at average option price of $15.93 a share	—	12,025
Expired	13,700	315,480
Outstanding at December 31, 1979	419,700	629,564
Shares available for grant at December 31, 1979	580,300	—

At December 31, 1979, options to purchase 306,646 shares were exercisable, all under the 1968 Plan. At December 31, 1979, the average option price per share of options outstanding was $21.60 (range $15.57 - $45.88) under the 1968 Plan and $19.45 (range $19.13 - $20.13) under the 1979 Plan.

Note 9. Preferred and Common Shares

At December 31, 1979, the authorized share capital of the Company consisted of 30,000,000 preferred shares and an unlimited number of common shares. Effective January 1, 1979, the Company reclassified all of its outstanding Class A and Class B Common Shares as a single class of Common Shares.

In May 1977, the Company sold 10 million Series A Preferred Shares for an aggregate of $250 million (Cdn.). The Series A Preferred Shares, which do not have general voting rights, have a cumulative floating rate dividend equal to half of the Canadian bank prime rate plus 1¼ per cent. The shares are redeemable at the option of the Company commencing in March, 1980 at a premium of three per cent over their $25.00 (Cdn.) par value, such premium declining thereafter by ¾ of one per cent per annum, and are redeemable at par commencing in 1984. The shares are retractable at par, at the option of the holders, in 1987. The dividends of $15,076,000 paid in 1979 on these preferred shares reflected an average annual dividend rate of approximately 7.1 per cent compared with a dividend rate of 5.6 per cent applicable to dividends of $12,272,000 paid in 1978.

In December 1977, the Company sold five million 7.85% Series B Preferred Shares for an aggregate of $125 million (Cdn.). The Series B Preferred Shares have general voting rights and are not redeemable before December, 1982, after which they are redeemable at a premium of four per cent over their $25.00 (Cdn.) par value, such premium declining by ⅘ of one per cent per annum until December 1987, and redeemable at par thereafter. The Company is required to repurchase 150,000 Series B Preferred Shares annually if such shares are available at a price not greater than par value; such purchases totalled 149,300 shares in 1979 and 75,000 shares in 1978.

Series B Preferred shareholders have the right to elect to receive Series B Preferred Shares or Common Shares in lieu of cash dividends. Under the Inco Optional Stock Dividend Program, common shareholders may elect to receive Common Shares, valued at a five per cent discount from the market price of the shares, in lieu of cash dividends. In 1979, 4,875 Series B Preferred Shares and 524,377 Common Shares were issued as stock dividends in lieu of $10,048,000 of cash dividends.

Note 10. Quarterly Financial Information (Unaudited)

Quarterly financial information follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1979:					
Net sales	$555,022	$574,561	$604,401	$754,559	$2,488,543
Cost of sales and operating expenses (1)	$446,107	$416,405	$415,003	$522,135	$1,799,650
Currency translation adjustments — loss (gain)	$ 5,346	$ 6,320	$ 3,200	$ (2,187)	$ 12,679
Earnings before income and mining taxes	$ 15,712	$ 54,366	$ 85,865	$124,024	$ 279,967
Net earnings (2)	$ 537	$ 16,036	$ 55,933	$ 69,219	$ 141,725
Net earnings (loss) per common share	$(.06)	$.13	$.67	$.84	$1.58
Dividends per common share	$ .10	$.10	$.10	$.20 (4)	$ .50
1978:					
Net sales	$517,132	$538,898	$487,914	$539,150	$2,083,094
Cost of sales and operating expenses (1)	$388,408	$404,224	$382,170	$440,929	$1,615,731
Currency translation adjustments — loss (gain)	$ (10,895)	$ 4,227	$ (10,702)	$ 2,414	$ (14,956)
Earnings before income and mining taxes	$ 60,773	$ 55,004	$ 32,355	$ 16,747	$ 164,879
Net earnings (3)	$ 34,906	$ 23,028	$ 9,780	$ 10,095	$ 77,809
Net earnings per common share	$.40	$.24	$.06	$.07	$.77
Dividends per common share	$.20	$.20	$.20	$.10	$.70

(1) Includes Sudbury strike expenses of $18,670,000 in the third quarter and $42,790,000 in the fourth quarter of 1978; and $40,480,000 in the first quarter and $35,060,000 in the second quarter of 1979.

(2) After tax benefits of $6,580,000, $24,140,000 and $12,720,000 in the second, third and fourth quarters of 1979, respectively, applicable to United Kingdom tax legislation enacted in 1979 (see Note 7).

(3) Fourth quarter 1978 net earnings include $8,740,000 relating to the favorable settlement of prior years' tax issues and $6,620,000 relating to gains on sales of securities.

(4) Consists of a regular quarterly dividend and a year-end extra dividend of 10 cents each.

Note 11. Replacement Cost Information (Unaudited)

Quantified replacement cost data will be disclosed in the Company's 1979 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission. See page 35 for comments on the effects of inflation on selected financial data for the Company.

Note 12. Financial Data by Business Segment

Financial data by business segment and geographic area for the three years 1977-1979 follow (in millions of dollars):

Data by Business Segment — Year 1979	Primary metals	Formed metal products	Batteries & related products	Other	Total after eliminations
Net sales to customers	$1,054	$553	$744	$138	$2,489
Intersegment sales	135	7	3	1	—
Total net sales	$1,189	$560	$747	$139	$2,489
Operating earnings	$ 336	$ 51	$ 36	$ 7	$ 425
Equity in earnings of affiliates	$ 4	$ (1)	$ 1		4
Non-operating expenses*					(149)
Earnings before income and mining taxes					$ 280
Capital expenditures	$ 56	$ 15	$ 40	$ 18	$ 129
Depreciation and depletion	$ 94	$ 15	$ 18	$ 5	$ 132
Identifiable assets at Dec. 31 (1)	$2,863**	$ 725	$608	$134	$4,221
Other assets (1)					114
Total assets at December 31					$4,335

Data by Business Segment — Year 1978	Primary metals	Formed metal products	Batteries & related products	Other	Total after eliminations
Net sales to customers	$ 866	$429	$655	$133	$2,083
Intersegment sales	135	9	2	1	—
Total net sales	$1,001	$438	$657	$134	$2,083
Operating earnings	$ 172	$ 25	$ 33	$ 3	$ 234
Equity in earnings of affiliates	$ (5)		$ 9		4
Non-operating expenses*					(73)
Earnings before income and mining taxes					$ 165
Capital expenditures	$ 155	$ 13	$ 24	$ 28	$ 220
Depreciation and depletion	$ 72	$ 16	$ 16	$ 5	$ 109
Identifiable assets at Dec. 31 (1)	$2,887	$ 622	$480	$116	$4,002
Other assets (1)					144
Total assets at December 31					$4,146

Data by Business Segment — Year 1977	Primary metals	Formed metal products	Batteries & related products	Other	Total after eliminations
Net sales to customers	$ 869	$377	$585	$122	$1,953
Intersegment sales	112	13	2	1	—
Total net sales	$ 981	$390	$587	$123	$1,953
Operating earnings	$ 189	$ 26	$ 15	$ 7	$ 242
Equity in earnings of affiliates	$ (6)		$ 7		1
Non-operating expenses*					(68)
Earnings before income and mining taxes					$ 175
Capital expenditures	$ 371	$ 27	$ 28	$ 7	$ 433
Depreciation and depletion	$ 84	$ 13	$ 17	$ 3	$ 117
Identifiable assets at Dec. 31 (1)	$2,936	$ 592	$456	$ 94	$4,002
Other assets (1)					74
Total assets at December 31					$4,076

Data by Geographic Area — Year 1979	Canada	United States	Europe	Other	Total after eliminations
Net sales to customers	$ 234	$1,264	$745	$ 246	$2,489
Sales between geographic areas	879	62	23	73	—
Total net sales	$1,113	$1,326	$768	$ 319	$2,489
Operating earnings	$ 336	$ 27	$ 62	$ 21	$ 425
Equity in earnings of affiliates					4
Non-operating expenses*					(149)
Earnings before income and mining taxes					$ 280
Identifiable assets at Dec. 31 (1)	$1,750	$1,012	$517	$1,326**	$4,221
Other assets (1)					114
Total assets at December 31					$4,335

Data by Geographic Area — Year 1978	Canada	United States	Europe	Other	Total after eliminations
Net sales to customers	$ 214	$1,107	$610	$ 152	$2,083
Sales between geographic areas	842	45	10	4	—
Total net sales	$1,056	$1,152	$620	$ 156	$2,083
Operating earnings	$ 156	$ 44	$ 27	$ 19	$ 234
Equity in earnings of affiliates					4
Non-operating expenses*					(73)
Earnings before income and mining taxes					$ 165
Identifiable assets at Dec. 31 (1)	$1,757	$ 916	$413	$1,247	$4,002
Other assets (1)					144
Total assets at December 31					$4,146

Data by Geographic Area — Year 1977	Canada	United States	Europe	Other	Total after eliminations
Net sales to customers	$ 234	$1,011	$567	$ 141	$1,953
Sales between geographic areas	725	44	8	4	—
Total net sales	$ 959	$1,055	$575	$ 145	$1,953
Operating earnings	$ 151	$ 37	$ 28	$ 9	$ 242
Equity in earnings of affiliates					1
Non-operating expenses*					(68)
Earnings before income and mining taxes					$ 175
Identifiable assets at Dec. 31 (1)	$1,948	$ 832	$397	$1,116	$4,002
Other assets (1)					74
Total assets at December 31					$4,076

*Includes interest expense, general corporate expenses, general corporate income and currency translation adjustments.

**Includes assets relating to the Company's nickel projects in Indonesia and Guatemala of $891 and $253 respectively.

(1) 1978 and 1977 restated.

The Company's business is organized around three principal product groups: primary metals, formed metal products and batteries and related products. The Company's principal primary metals are nickel and copper. Wrought nickel, high-nickel alloys in rolling mill forms, and forgings are the Company's major formed metal products. Automotive, dry-cell and industrial batteries and related products are the Company's major battery products. Other products comprise mainly fractional horsepower motors and safety products.

The Company's intersegment sales generally are made at approximate prices used for sales to unaffiliated customers. Other assets include $62 (1978 - $60) of investments in and advances to affiliated companies and $52 (1978 - $84) of corporate assets, principally cash, marketable securities and certain fixed assets.

Sales between geographic areas generally are made at prevailing market prices, except that sales of primary metals from Canada to other primary metals locations are net of discounts. In 1979 sales to customers include $42 (1978 - $46) exported from Canada and $68 (1978 - $49) exported from the United States. The sales from Canada include $419 (1978 - $425) exported to the United States and $428 (1978 - $389) exported to Europe.

SUPPLEMENTARY FINANCIAL INFORMATION

Lines of Business Data

The Company's sales and earnings before income and mining taxes, by lines of business, for the years 1975 and 1976 are shown below. In these years, the metals business comprised both primary metals and formed metal products. Additionally, the business segment financial data presented on page 33 reports operating earnings while the table below reports earnings before income and mining taxes. Primarily for these reasons the business segment financial data are not comparable with the lines of business data set forth below.

	1976	1975
	(in millions)	
Sales		
Metals	$1,442	$1,198
Batteries and related products	486	413
Other products*	112	84
Net sales	$2,040	$1,695
Earnings before taxes		
Metals	$ 309	$ 305
Batteries and related products	37	18
Other products*	1	(1)
Earnings before income and mining taxes	$ 347	$ 322

*Comprises, principally, fractional horsepower motors and safety products.

Sales by Principal Products

	1979	1978	1977	1976	1975
			(in millions)		
Primary metals					
Primary nickel	**$ 807**	$ 615	$ 558	$ 762	$ 569
Refined copper	**115**	135	211	227	194
Precious metals	**87**	81	63	57	44
Other metals	**45**	35	37	31	21
	1,054	866	869	1,077	828
Formed metal products	**553**	429	377	365	370
Metals business				1,442	1,198
Batteries and related products					
Automotive and electric vehicle batteries and related products	**303**	282	262	207	169
Dry-cell batteries and portable lighting devices	**268**	246	214	204	174
Industrial batteries	**173**	127	109	75	70
	744	655	585	486	413
Other products*	**138**	133	122	112	84
Net sales	**$2,489**	$2,083	$1,953	$2,040	$1,695

*Comprises, principally, fractional horsepower motors and safety products.

Pension Trust Funds

The Company and its subsidiaries have pension plans covering most employees. Irrevocable pension trust funds, which are separate and distinct from the accounts of the Company and its subsidiaries, have been established to implement most of these pension plans. The funds consist of marketable securities at cost, cash and other assets. Trust fund operations are summarized as follows:

Year ended December 31	**1979**	1978
	(in thousands)	
Balance in funds at beginning of year	**$453,481**	$412,803
Company contributions	**57,902**	44,122
Employee contributions	**939**	389
Income from investments	**71,818**	47,380
Currency translation adjustments*	**6,717**	(16,716)
	590,857	487,978
Benefits paid	**36,767**	34,497
Balance in funds at end of year	**$554,090**	$453,481
Market value of funds at end of year	**$637,900**	$506,100

*Currency translation adjustments result from translating assets in Canadian and other currencies into U.S. dollars at year-end exchange rates. Trust fund assets are denominated principally in those currencies in which corresponding retirement benefits are paid.

Market Price Range

Market price range for Common and Series B Preferred Shares

Year ended December 31	**1979**	1978
New York Stock Exchange		
(Composite transactions)	Common Shares	
First quarter	**$21⅛ - 15¾**	$17⅝ - 13⅜
Second quarter	**22½ - 19¼**	19 - 15½
Third quarter	**24 - 18⅜**	18 - 15¼
Fourth quarter	**23¾ - 18**	19⅝ - 14⅝
Toronto Stock Exchange		
(Canadian dollars)		
First quarter	**$24¾ - 18⅝**	$19¼ - 15¼
Second quarter	**25½ - 22⅜**	21¼ - 17⅝
Third quarter	**27¾ - 21½**	21 - 17
Fourth quarter	**27¾ - 21**	23⅛ - 17¼
	Series B Preferred Shares	
First quarter	**$25⅝ - 24⅛**	$24¾ - 24⅛
Second quarter	**26¾ - 25**	25⅜ - 24
Third quarter	**25⅝ - 24⅜**	25½ - 24¼
Fourth quarter	**24⅜ - 22¼**	25¼ - 24¼

Effect of Inflation on Selected Financial Data

In an attempt to provide information relative to the effects of changing prices, Financial Accounting Standards Statement No. 33 was issued in 1979 requiring that historical cost financial statements of large companies be supplemented by selected information that reflects the more significant impacts of inflation on an enterprise's results of operations and financial position. The statement prescribes two supplementary income computations, one dealing with the effects of general inflation (constant dollars) and the other dealing with the effects of changes in the specific prices of resources used by an enterprise (current cost). Disclosure of constant dollar supplementary information is required beginning with the year 1979. Consideration is still being given to special problems relative to the application of the current cost requirements of certain types of assets, such as natural resources. Proposals regarding these problems will be addressed by the Financial Accounting Standards Board with a view to implementation in 1980 annual reports issued on or after December 25, 1980. Accordingly, the supplementary information set forth below reflects only the effect of general inflation in constant dollars.

The following definitions included in Statement No. 33 may be helpful in understanding the supplementary information presented:

Historical cost/nominal dollar accounting — The generally accepted method of accounting, used in the primary financial statements, based on measures of historical prices.

Constant dollar accounting — A method of reporting financial statement elements in dollars each of which has the same (i.e., constant) general purchasing power.

Current cost accounting — A method of measuring and reporting assets and expenses associated with the use or sale of assets at their current cost or lower recoverable amount at the balance sheet date or at the date of use or sale.

The accompanying statement of income from continuing operations adjusted for general inflation compares the Company's results as reported in the primary financial statements which are expressed in historical/nominal dollars with the results adjusted for general inflation which are expressed in average 1979 constant dollars.

The historical/nominal dollar value of cost of sales and operating expenses has been restated into average 1979 constant dollars by applying the Consumer Price Index for All Urban Consumers (CPI-U), published by the Bureau of Labor Statistics of the U.S. Department of Labor. Restatement of depreciation and depletion expense has been calculated by first converting the annual net additions for each of the last 20 years as well as the depreciated net fixed asset balance at December 31, 1959, into average 1979 constant dollars and then applying the Company's depreciation policy.

The gain from decline in purchasing power of net monetary liabilities derives from the concept that monetary assets and monetary liabilities decrease in value with inflation. The gain is calculated by measuring the decrease in purchasing power for the year attributable to general inflation having taken into account net balances of monetary liabilities at the beginning and end of the year and transactions for the year.

The information included in the accompanying five-year comparison of selected supplementary financial data adjusted for effects of general inflation is expressed in average 1979 constant dollars. As required, net sales and other income, dividends per common share and market price per common share at year end, are restated for each of the five years shown, with loss from continuing operations and the gain from decline in purchasing power of net amounts owed being reported only for the year 1979. Net assets at year end is a restatement of common shareholders' equity at year-end 1979, as reported in the primary financial statements, into average 1979 constant dollars and adjusted to reflect the excess of the constant dollar values for inventory and property, plant and equipment over the respective historical/nominal dollar amounts.

Comments on Inflation-Adjusted Data

Statement of income from continuing operations adjusted for general inflation

Income from continuing operations of $142 million based on historical/nominal dollars is shown as a loss from continuing operations of $60 million in constant dollars, after adjusting cost of sales and operating expenses, including depreciation and depletion expense, for general inflation. These adjustments, during inflationary periods, will always result in constant dollar income from continuing operations being lower than income from continuing operations based on historical/nominal dollars but will not necessarily always result in a loss from continuing operations. In addition to the adjustments for general inflation, the loss for the year 1979 is attributable to the same factors which resulted in the unsatisfactory profit performance in historical/nominal dollars, i.e., depressed prices for nickel, particularly in the first half of the year, costs and expenses attributable to the Sudbury strike, and the charges applicable to the Guatemalan and Indonesian projects. The Company's average net realized price for its primary nickel products, even in historical/nominal dollars, was lower in the first half of 1979 than in the year 1976. When adjusted for inflation, the Company's realized price for its primary nickel products in the first half of 1979 was comparable to the average price realized in 1970 in historical/nominal dollars.

A loss in constant dollars for any one year should not be interpreted to mean that the Company will be unable to replace its productive capacity, particularly if the year's results were adversely affected by unusual factors, as was true in

the case of the Company's 1979 results. The Company is particularly well positioned with respect to its productive capacity for mining and processing primary metals in that very substantial expenditures have been made in recent years to expand and modernize these facilities. Approximately 80 per cent of the Company's gross investment in property, plant and equipment has been made in the last 12 years.

It is also worth noting that income and mining tax expense is reported as the same amount in constant dollars as in historical/nominal dollars despite the significant reduction in pretax constant dollar income. This treatment, which highlights the hidden tax being borne by companies due to inflation, is in accordance with Statement No. 33 and reflects the fact that tax legislation does not give adequate recognition to the effects of inflation.

Since the Company's monetary liabilities were substantially in excess of its monetary assets at year end, there was a purchasing power gain of $251 million in net amounts owed in 1979.

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices

Net sales and other income for the five years 1975 to 1979, expressed in average 1979 constant dollars, show an annual rate of growth of 0.5 per cent as compared with an 8 per cent annual growth rate calculated on an historical/nominal dollar basis. This small constant dollar growth rate is due primarily to reduced deliveries of nickel in 1975 and 1977, depressed nickel prices in 1978 and reduced copper deliveries due to the Sudbury strike in 1978 and 1979.

Net assets at year-end 1979 of $3,544 million, which is expressed in average 1979 constant dollars, have been adjusted to reflect the excess of constant dollar values over the respective historical/nominal dollar value amounts for inventories and property, plant and equipment. The significant increase in net assets in terms of average 1979 constant dollars reflects mainly the adjustment of property, plant and equipment values and is indicative of the enormously high capital cost requirements for mineral resource development at 1979 prices.

Dividends per common share were unchanged in 1975 and 1976 and were reduced in 1977, 1978 and 1979 as earnings declined. The annual rate of decline of 27 per cent in dividends compares with 32 per cent annual rate of decline when calculated on the basis of restating dividends for the five years into average 1979 constant dollars. Similarly, the market price per common share declined over the five-year period at an annual rate of 8 per cent in actual dollars compared with an annual rate of decline of 15 per cent in terms of 1979 constant dollars.

The supplementary financial information and related commentary disclosed by companies in annual reports to shareholders should assist financial statement users in developing an understanding of the more significant impacts of inflation on business enterprises. The Company supports this approach in which the dominant focus will continue to be on present financial statements based on historical costs while the considerable effort still required in the experimentation process of evaluating the effects of changing prices is conducted.

Statement of Income from Continuing Operations Adjusted for General Inflation

	As reported in the primary statements	Adjusted for general inflation
Year ended December 31, 1979 (dollars in millions)	(Historical/ nominal dollars)	(Average 1979 constant dollars; 1967 = 100)
Net sales and other income	$2,524	$2,524
Cost of sales and operating expenses	1,799*	1,995*
Selling, general and administrative expenses	244*	248*
Research and development	40*	42*
Exploration	14	14
Interest	134	134
Currency translation adjustments	13	13
Total costs and expenses	2,244	2,446
Earnings before income and mining taxes	280	78
Income and mining taxes	138	138
Income (loss) from continuing operations	$ 142	$ (60)
Gain from decline in purchasing power of net amounts owed		$ 251
**Includes depreciation and depletion, which for the year 1979 totalled*	$ 132	$ 225

Five-Year Comparison of Selected Supplementary Financial Data

Adjusted for effects of general inflation (Average 1979 constant dollars)

Year ended December 31	1975	1976	1977	1978	**1979**
	(dollar amounts in millions, except per share amounts)				
Net sales and other income	$2,324	$2,646	$2,381	$2,350	**$2,524**
Loss from continuing operations					**$ 60**
Loss from continuing operations per common share					**$ 1.11**
Net assets at year end (common shareholders' equity)					**$3,544***
Gain from decline in purchasing power of net amounts owed					**$ 251**
Dividends per common share	$ 2.16	$ 2.04	$ 1.50	$ 0.78	**$ 0.50**
Market price per common share, New York Stock Exchange, at year end	$34.05	$41.61	$20.52	$17.67	**$23.75**
Average consumer price index (1967=100)	161.2	170.5	181.5	195.4	**217.4**

Comparable historical data (Historical/nominal dollars)

	1975	1976	1977	1978	**1979**
Net sales and other income	$1,723	$2,075	$1,988	$2,112	**$2,524**
Net earnings					**$ 142**
Net earnings per common share					**$ 1.58**
Common shareholders' equity					**$1,658**
Dividends per common share	$ 1.60	$ 1.60	$ 1.25	$ 0.70	**$ 0.50**
Market price per common share, New York Stock Exchange, at year end	$25.25	$32.63	$17.13	$15.88	**$23.75**

*Net assets at year end is a restatement, into average 1979 constant dollars, of common shareholders' equity at year-end 1979 adjusted to reflect the excess of constant dollar values for inventory and property, plant and equipment over the respective historical/nominal dollar amounts.

DIRECTORS AND OFFICERS

The Board of Directors consists of 21 members of whom six are Officers of the Company. Each year 15 meetings are scheduled to be held, and special meetings may be called from time to time. In 1979 the Board held 15 meetings.

Each year the Board holds a meeting at an operational site. On October 1 the Board met at Huntington Alloys, Inc. in Huntington, West Virginia. Members toured operations there and the nearby Burnaugh, Kentucky plant.

The activities of the Board are supported by its various committees.

The Executive Committee, which held 10 meetings during 1979, consists of the Chairman, the President and five non-employee Directors. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

The Audit Committee, which held four meetings during 1979, consists of five non-employee Directors. This committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least four times a year to review financial reporting practices, internal accounting controls and procedures, the planned scope of examinations by both the internal auditors and the independent auditors and their findings and recommendations, and the non-auditing services performed by the independent auditors. It reviews the financial statements in the Company's Annual Report and monitors the results of reviews covering employee compliance with the Company's policies on business conduct and other internal control policies. It also recommends to the Board the independent auditors to be proposed to the Shareholders for appointment at the Annual Meeting.

The Nominating Committee, which held four meetings during 1979, consists of the same Directors who comprise the Executive Committee and has the function of recommending to the Board nominees for election as Directors.

The Salary and Incentive Plan Committee, which held eleven meetings during 1979, consists of five non-employee Directors. This committee advises and consults with the Chairman and makes recommendations to the Board on the remuneration of senior executives of the Company. The committee also administers and makes recommendations to the Board with respect to the Company's incentive compensation plans.

The Pension Committee, which held five meetings during 1979, consists of five non-employee Directors. This committee advises the Board, the Executive Committee, the Chairman, the President and other executive officers regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds. In addition, this committee recommends to the Board or the Executive Committee the appointment of trustees and investment advisers or managers.

Directors (Term expires 1980)

Harold Bridges
Former President and Chief Executive Officer
Shell Oil Company,
Lausanne, Switzerland

J. Edwin Carter
Chairman and Chief Executive Officer

Peter D. Curry
Deputy Chairman, Power Corporation of Canada, Limited, Montreal, (investment, management and transportation)

Edmund B. Fitzgerald
Managing Director, Hampshire Associates, Milwaukee, Wisconsin (industrial consulting firm), former Chairman and Chief Executive Officer, Cutler-Hammer Inc. (electrical equipment)

Allen T. Lambert, O.C.
Former Chairman of the Board,
The Toronto-Dominion Bank, Toronto

Walter F. Light
President and Chief Executive Officer, Northern Telecom Limited, Montreal (manufacturer of telecommunications equipment)

Ian McDougall
Senior Vice-President

The Rt. Hon. Lord Nelson of Stafford
Chairman of the Board, The General Electric Company Limited, London, England

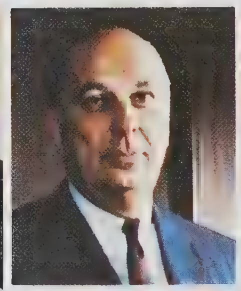
George T. Richardson
President, James Richardson & Sons, Limited, Winnipeg, (financial, grain and management holding company)

Lucien G. Rolland
President, Rolland inc., Montreal (specialists in coated and uncoated printing papers)

Ashby McC. Sutherland
Senior Vice-President


J. Edwin Carter


Peter D. Curry


G. Arnold Hart, M.B.E.


Donald J. Phillips


Allen T. Lambert, O.C.


David W. Barr


Wm. Ward Foshay


Ian McDougall

Directors (Term expires 1981)

Charles F. Baird
President

David W. Barr
Chairman of the Board, Moore Corporation Limited, Toronto (business forms)

Robert W. Bonner, Q.C.
Chairman of the British Columbia Hydro & Power Authority, Vancouver

Wm. Ward Foshay
Lawyer–Partner in the firm of Sullivan & Cromwell, New York

Reva Gerstein, O.C.
Psychologist and educator, Toronto

G. Arnold Hart, M.B.E.
Former Chairman of the Board and Chief Executive Officer, Bank of Montreal, Montreal

Donald J. Phillips
President and Chief Executive Officer, Inco Metals Company

William Steven
Senior Vice-President

Donald G. Willmot
Chairman of the Board, The Molson Companies Limited, Toronto, (brewing, retailing and distribution)

Samuel H. Woolley
Former Chairman of the Board, The Bank of New York, New York

Executive committee
J. Edwin Carter, Chairman
Charles F. Baird
David W. Barr
Wm. Ward Foshay
G. Arnold Hart, M.B.E.
Allen T. Lambert, O.C.
Donald G. Willmot

Audit committee
Samuel H. Woolley, Chairman
Robert W. Bonner, Q.C.
Harold Bridges
Walter F. Light
Lucien G. Rolland

Nominating committee
J.Edwin Carter, Chairman
Charles F. Baird
David W. Barr
Wm. Ward Foshay
G. Arnold Hart, M.B.E.
Allen T. Lambert, O.C.
Donald G. Willmot

Salary and Incentive Plan committee
G. Arnold Hart, M.B.E., Chairman
David W. Barr
Wm. Ward Foshay
Allen T. Lambert, O.C.
Donald G. Willmot

Pension committee
Peter D. Curry, Chairman
Edmund B. Fitzgerald
Reva Gerstein, O.C.
The Rt. Hon. Lord Nelson of Stafford
George T. Richardson

Officers
Inco Limited

J. Edwin Carter, Chairman and Chief Executive Officer
Charles F. Baird, President
Ian McDougall, Senior Vice-President
William Steven, Senior Vice-President
Ashby McC. Sutherland, Senior Vice-President
Frank C. Burnet, Vice-President
Raymond F. Decker, Vice-President
Robert T. deGavre, Treasurer
Philip C. Jessup, Jr., Vice-President, General Counsel & Secretary
Dean D. Ramstad, Vice-President
Anthony J. Sabatino, Comptroller
Alfred P. Statham, Vice-President
J. Stuart Warner, Vice-President
Shane MacKay, Regional Vice-President

Principal regional officers

John H. Page, President
Inco United States, Inc., New York

Anthony T. Shadforth, Chairman
Inco Europe Limited, London, England and Chairman of Inco's other major companies in the United Kingdom

Dean D. Ramstad, General Manager
Inco Limited, Japan Branch, Tokyo


The Rt. Hon. Lord Nelson of Stafford


Reva Gerstein, O.C.


Charles F. Baird


Samuel H. Woolley


Harold Bridges

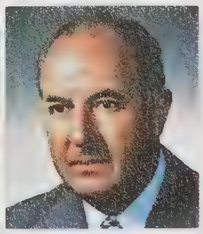

Ashby McC. Sutherland

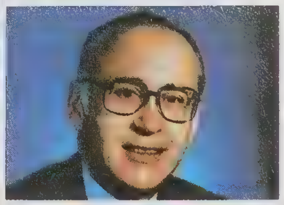

Edmund B. Fitzgerald


Lucien G. Rolland


Walter F. Light


William Steven


Donald G Willmot


George T Richardson


Robert W. Bonner, Q.C.

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INCO METALS COMPANY

Copper Cliff, Ontario P0M 1N0

MEDIA INFORMATION

FOR IMMEDIATE RELEASE

MAR 5 1979

INCO CHAIRMAN AND PRESIDENT, IN ANNUAL REPORT MESSAGE, CALL EARNINGS INADEQUATE: CITE DEPRESSED NICKEL PRICES AND COSTS OF SUDBURY STRIKE

Toronto, February 23 -- While Inco Limited's three principal business groups operated profitably in 1978, none made an adequate contribution to earnings, according to chairman and chief executive officer J. Edwin Carter and Charles F. Baird, president.

"The decline in nickel prices to a level lower than in 1975, while production costs and expenses suffered the inevitable consequences of inflation, was the single most important reason for the inadequate return on the shareholders' investment," they say in the company's 1978 annual report, which is being mailed to shareholders today.

"In addition, 1978 earnings were adversely affected to a significant degree by the costs and expenses attributable to the Sudbury strike, which began in mid-September and continued through year end," they report.

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NOTE: All monetary figures expressed in U.S. currency.

For the year 1979, Messrs. Carter and Baird indicate that results of operations will continue to reflect the severe pressures of the last half of 1978, particularly inadequate nickel prices and costs attributable to the Sudbury strike. Additionally, since both the Guatemalan and Indonesian projects are now fully accounted for as operating units, interest expense will rise sharply in 1979. They add that,"We are confident, however, of our ability to deal with these pressures and believe that 1979 may well mark the end of the severe decline and the beginning of a recovery in the nickel business.

Referring to the Sudbury strike, Messrs. Carter and Baird say, "We regret the strike but are confident that we have acted responsibly and in good faith."

They point out that throughout the long period of negotiations which preceded the strike and during the strike, Inco has been guided by one basic principle. "We have sought an agreement that would be fair to our employees and responsible to our shareholders in light of the company's financial condition and near-term outlook. Any other course would have been neither prudent nor thoughtful of our employees' interests," they say.

Inco Limited reported its sales and earnings for 1978 on February 5, 1979. Net earnings in 1978 were $77.8 million, or 77 cents per common share, compared with $99.9 million, or $1.24 per common share in 1977. Net earnings per common share are after allowances for preferred dividends of $20.5 million in 1978 and $7.5 million in 1977.

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Net sales in 1978 were $2,083 million, compared with $1,953 million in 1977.

During 1978, inventories of finished nickel held by producers in the non-communist world are estimated to have decreased by more than 200 million pounds to a level of approximately 550 million pounds, due to the high level of nickel consumption, production cutbacks in the industry and the Sudbury strike.

Inco's inventories of finished nickel at year-end 1978 stood at 230 million pounds, a reduction of 111 million pounds from year-end 1977.

Inco's total nickel deliveries in 1978 were up by 21 per cent to 377 million pounds, compared with 312 million pounds in 1977.

The average net price realized by Inco for primary nickel products, however, was $1.98 per pound, compared with $2.17 in 1977, $2.15 in 1976 and $2.00 in 1975.

Inco Limited's capital expenditures in 1978 totalled $220 million, down sharply from $433 million in 1977. This reflects reduced expenditures on Inco's Guatemalan and Indonesian projects and the company's cash-conservation measures. Capital expenditures for 1979, according to the report, will again decline substantially and should approximate $150 million.

Inco's production of copper associated only with the ores mined in Canada, was 197 million pounds, compared with 328 million pounds in 1977 and 345 million pounds in 1976. Deliveries of copper in 1978,

-more-

at 225 million pounds, were 34 per cent lower than 1977. The company realized an average of 61 cents per pound of copper in 1978, compared with an average of 63 cents per pound in 1977. Low volume of sales in the fourth quarter of 1978, when prices were highest, adversely affected the average price for the year.

Sales of precious metals in 1978 increased by 28 per cent from 1977 and, at $81 million, reached an all-time high.

Inco's sales of cobalt were $20.6 million in 1978, an increase of 83 per cent from 1977.

ESB Ray-O-Vac Corporation's sales to customers of batteries and other products reached a record $785 million in 1978, up 11 per cent from 1977.

ESB Ray-O-Vac in early 1979 restructured its core business to emphasize batteries and energy-conversion products. The dry-cell battery and the automotive and industrial battery businesses were formed into separate companies. They have been designated the Ray-O-Vac Company and the Exide Company, respectively.

Net sales of the Formed Metal Products Group in 1978 were $429 million, up 14 per cent from 1977. Deliveries of rolling mill products totalled 96 million pounds, compared with 88 million pounds in 1977.

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At year-end 1978, the report states, Inco Limited had 75,067 Common shareholders of record and 2,041 Preferred shareholders of record, compared with 77,875 Common shareholders of record and 924 Preferred shareholders of record at year-end 1977. According to the company's records, 67 per cent of shareholders had addresses in Canada, 31 per cent in the United States and 2 per cent elsewhere.

Of the shares having general voting rights, the Common Shares and Series B Preferred Shares, Canadian residents of record held 58 per cent, United States residents of record 27 per cent, and residents of record in other countries 15 per cent.

-30-

IN 11/79
February 23, 1979

In view of recent improvements in the nickel market, the settlement of the Sudbury strike, and the anticipated strong performance by ESB Ray-O-Vac and the Formed Metal Products Group, the Company's earnings are expected to improve substantially in the second half of 1979.

J. Edwin Carter

Chairman and Chief Executive Officer

Charles F. Baird

July 19, 1979

President

INCO OPTIONAL STOCK DIVIDEND PROGRAM

Under the Company's Optional Stock Dividend Program, common shareholders have the right to elect to receive a stock dividend in lieu of a cash dividend. Effective with the dividend declared on July 19, stock dividends will be valued at a 5 per cent discount from the market price of the Company's Common Shares. Holders of about 22 per cent of the Company's outstanding Common Shares are now participating in the Program. The Program permits many shareholders to receive tax benefits similar to those previously available to holders of the Company's former Class B Common Shares and also provides common shareholders with a simple and convenient method of obtaining additional Common Shares without payment of brokerage commissions or service charges. Those who wish to participate or desire additional information should write to Shareholder Services, Inco Limited, at either the Company's Toronto or New York address.

INCO

Principal Executive Offices
1 First Canadian Place, Toronto, Ontario M5X 1C4

Other Executive Offices
One New York Plaza, New York, N.Y. 10004, U.S.A.

Printed in Canada

INCO

Second Quarter Report 1979

INCO LIMITED

To the Shareholders:

The Company's earnings for the second quarter of 1979 were $16 million, or 13 cents a common share, compared with earnings of $23 million, or 24 cents a share, for the second quarter of 1978. Earnings for the first six months of 1979 were $16.6 million, or seven cents a common share, compared with earnings of $57.9 million, or 64 cents a share, in the corresponding period of 1978. Earnings per share are after allowances for preferred dividends which totalled $11.4 million in the first half of 1979 and $9.9 million in the first half of 1978.

Net sales for the second quarter totalled $575 million, compared with $539 million for the second quarter of 1978. Sales for the first six months amounted to $1,130 million, compared with $1,056 million for the corresponding period last year. Net sales to customers in these periods were as follows (in millions of dollars):

	Second Quarter		First Half	
	1979	1978	1979	1978
Inco Metals Company ...	$231	$248	$ 466	$ 480
ESB Ray-O-Vac*	201	182	396	367
Formed Metal Products Group	143	109	268	209
	$575	$539	$1,130	$1,056

*Includes batteries and related products, electric motors, personal industrial safety equipment, and other products.

Inco Metals Company's sales in the 1979 periods were adversely affected by the unavailability of copper due to the Sudbury strike.

This year's second quarter and first half earnings, as compared with the same periods last year, were adversely affected principally by costs and expenses attributable to the Sudbury strike and by charges applicable to the Guatemalan and Indonesian projects. Earnings in these 1979 periods benefited from increased prices for nickel, precious metals, cobalt and formed metal products. Second quarter 1979 earnings also benefited from tax changes in Canada and the United Kingdom and from a reduction in the level of certain inventories valued on the LIFO method. Currency translation adjustments resulted in a charge of $11.7 million against first half 1979 earnings as compared with a credit of $6.7 million to first half 1978 earnings.

As a result of improved market conditions, nickel prices have increased in the first half of this year. On June 7, 1979, the Company increased prices for its principal nickel products to a range of $2.91 to $3.05 per pound. Average realizations in the first six months, however, were significantly below these levels.

Deliveries of nickel in all forms were 98 million pounds in the second quarter and 222 million pounds in the first six months of 1979, compared with 103 million pounds and 195 million pounds in the respective periods last year. The Company's finished nickel inventories at June 30, 1979 totalled 104 million pounds, compared with 230 million pounds at December 31, 1978 and 331 million pounds at June 30, 1978. Copper deliveries totalled 3 million pounds in the first six months, compared with 159 million pounds in the first half of last year. Copper, which is principally associated with the Company's mines in Ontario, was not available for sale in the first five months of 1979 due to the Sudbury strike.

The strike by the Company's Sudbury District hourly-paid employees, which commenced on September 16, 1978, was settled on June 3, 1979 when the employees voted to accept a three-year agreement which provides for increases in wages and fringe benefits. The start-up of the Sudbury operations began June 5, and by the end of June more than 11,000 of the 11,600 pre-strike workforce had returned to work. The Company has started to recall up to 450 former employees in order to rebuild the Sudbury workforce to the pre-strike level. In June, the Company's hourly-paid employees at Port Colborne, Ontario voted to accept a new three-year agreement which also provides for increases in wages and fringe benefits.

Costs and expenses attributable to the Sudbury strike, including start-up costs, totalled $35 million for the second quarter and $76 million for the first six months of 1979. Strike expenses are those ongoing costs, such as employment costs of salaried staff at Sudbury and depreciation, which are normally treated as production costs and charged to inventory. In the absence of production because of the strike, however, these costs were expensed. Start-up costs were incurred subsequent to the settlement of the strike when the facilities began operations. Normal production levels have now been attained.

The net reduction of earnings attributable to the Guatemalan and Indonesian projects amounted to $23 million in the second quarter and $46 million in the first half of 1979, consisting principally of interest expense relative to borrowings incurred by the subsidiary companies which operate these projects. The expensing of interest with respect to the Guatemalan project commenced in June 1978, and with respect to the Indonesian project commenced in August 1978 for Stage I and in January 1979 for Stage II. No tax benefit has been recognized relative to the losses incurred by the projects, although such losses can be carried forward indefinitely to offset taxable income of the respective projects in future periods. This is the principal reason for the disproportionate relationship of income and mining taxes to pretax earn-

Consolidated Financial Statements - June 30, 1979

(In Thousands of Dollars)

Statement of Earnings

	Second Quarter 1979	Second Quarter 1978	Six Months 1979	Six Months 1978
Net sales	$574,561	$538,898	$1,129,583	$1,056,030
Other income	8,171	5,652	19,011	9,183
	582,732	544,550	1,148,594	1,065,213
Costs	389,314	378,585	810,594	744,118
Selling, general and administrative expenses	56,073	48,116	106,384	95,676
Depreciation and depletion	27,911	27,902	54,411	56,008
Interest, net of amounts capitalized	33,321	16,669	66,369	32,555
Pension expense	15,427	14,047	29,092	27,747
Currency translation adjustments	6,320	4,227	11,666	(6,668)
	528,366	489,546	1,078,516	949,436
Earnings before income and mining taxes	54,366	55,004	70,078	115,777
Income and mining taxes	38,330	31,976	53,505	57,843
Net earnings	16,036	23,028	16,573	57,934
Dividends on preferred shares	6,041	5,104	11,407	9,928
Net earnings applicable to common shares	$ 9,995	$ 17,924	$ 5,166	$ 48,006
Net earnings per common share	$0.13	$0.24	$0.07	$0.64
Common shares outstanding at end of period	74,766,564	74,594,742	74,766,564	74,594,742

Balance Sheet

	June 30, 1979	Dec. 31, 1978
Cash and securities	$ 87,673	$ 85,262
Accounts receivable	449,018	394,937
Inventories	917,923	985,286
Prepaid expenses	26,188	10,892
Total current assets	1,480,802	1,476,377
Property, plant and equipment–net	2,520,617	2,540,510
Cost in excess of net assets acquired	31,244	32,792
Other assets	99,183	95,943
	$4,131,846	$4,145,622

	June 30, 1979	Dec. 31, 1978
Notes payable	$ 138,697	$ 83,069
Accounts payable	353,712	327,790
Current taxes payable	80,810	103,581
Total current liabilities	573,219	514,440
Long-term debt	1,153,789	1,223,955
Deferred taxes	422,900	417,100
Other liabilities	70,546	71,779
Preferred shares	351,144	351,616
Common shares	100,366	97,089
Retained earnings and capital surplus	1,459,882	1,469,643
	$4,131,846	$4,145,622

Statement of Changes in Financial Position

	Six Months 1979	1978
Financial resources were provided by		
Net earnings	$ 16,573	$ 57,934
Depreciation and depletion	54,411	56,008
Deferred income and mining taxes	5,800	15,800
Long-term borrowings	24,611	228,884
Currency translation adjustments not affecting working capital	5,528	(4,868)
Total	106,923	353,758
Financial resources were used for		
Preferred dividends	11,407	9,928
Common dividends	14,927	29,837
Reduction of long-term debt	97,768	23,054
Capital expenditures	37,128	121,943
Other–net	47	(1,045)
Total	161,277	183,717
Increase (decrease) in working capital	$ (54,354)	$170,041

These statements are expressed in United States currency and are unaudited.

ings in the first half of 1979.

During the first half of 1979, the Company's Guatemalan project met its production targets, while the Indonesian project fell short of planned production. Difficulties were encountered in Indonesia in mid-May when the one operating electric furnace was shut down to repair damage caused by excessive corrosion of its refractory lining. The furnace has been repaired and is now operating together with a second furnace. A new sector of the Indonesian ore body is being mined in order to provide a blended feed less acidic than the original feed which caused the corrosion problem.

In June, P.T. International Nickel Indonesia implemented the three-part plan discussed in the First Quarter Report which provides for additional equity contributions and the prepayment and rescheduling of certain Senior Funded Debt.

Two changes in Canadian tax legislation increased second quarter 1979 earnings by $5.3 million. The Province of Manitoba replaced the two-tiered mining tax system with a reduced single tax rate retroactive to January 1, 1979, and the Province of Ontario removed the two highest marginal mining tax rates effective April 11, 1979. These actions, which mitigate the excessive tax burdens borne by mining companies, should encourage exploration and mining investment in these two provinces. The United Kingdom has had legislation, effective from the year 1973, which provides tax relief on increases in the value of inventories, subject to recapture if such value declines. Accordingly, tax payments have been reduced each year but, at the same time, deferred tax liabilities were established to provide for the possibility of recapture. On June 12, the new Government proposed legislation removing such recapture with respect to the years 1973 and 1974. Since enacting legislation is imminent, the deferred tax liabilities so established for the years 1973 and 1974 have been reversed, thereby increasing second quarter earnings by $6.6 million.

The Board of Directors today declared a quarterly dividend of 10 cents (U.S.) a common share, payable September 4 to shareholders of record on August 7. The Board of Directors also declared a quarterly dividend at an annual rate of 7.25 per cent on the Company's Series A Preferred Shares, payable September 4 to shareholders of record on August 22, and a quarterly dividend on the Company's 7.85% Series B Preferred Shares, payable September 4 to shareholders of record on August 7.

INCO

Notice of Meeting

NOTICE IS HEREBY GIVEN that a combined Annual and Special General Meeting of Shareholders of INCO LIMITED will be held in the Ballroom, Convention Floor, Royal York Hotel, Toronto, Ontario, on Wednesday, April 18, 1979, at the hour of eleven o'clock in the morning, for the purposes of:

(a) receiving the report of the Directors and financial statements for 1978;

(b) electing Directors for the term expiring in 1981;

(c) considering and, if thought fit, passing a special resolution which, as described in the accompanying Information Circular and Proxy Statement, authorizes the continuance of the Company under the Canada Business Corporations Act and, in conjunction therewith, the amendment of the Company's charter by, among other things:

(i) removing the existing limit on the authorized number of the Company's Common Shares and restoring the authorized number of the Company's Preferred Shares to the number authorized upon the creation of such class of shares in 1977 (namely, 30,000,000 shares);

(ii) amending several terms of the Company's 7.85% Preferred Shares Series B that relate to the issuance of additional Series B Preferred Shares as stock dividends; and

(iii) amending in several respects the optional stock dividend provisions applicable to the Company's Common Shares, including the addition of a provision that additional Common Shares may be issued as stock dividends at a discount from market value of up to 5%;

(d) considering and, if thought fit, confirming By-law No. 1 of the Company which, as described in the accompanying Information Circular and Proxy Statement, is a new general by-law that would become effective upon the continuance of the Company under the Canada Business Corporations Act;

(e) considering and, if thought fit, approving the 1979 Key Employees Incentive Plan of the Company, as described in the accompanying Information Circular and Proxy Statement;

(f) appointing Auditors of the Company; and

(g) transacting such other business as may properly be brought before the meeting.

Only holders of record at the close of business on March 19, 1979 of Common Shares and 7.85% Preferred Shares Series B will be entitled to notice of and to vote at the meeting or adjournments thereof.

If you cannot be personally present, **please sign, date and return the accompanying form of proxy** to the Company in the enclosed envelope, postage prepaid.

By Order of the Board of Directors,

P. C. Jessup, Jr.
Vice-President, General Counsel & Secretary

Dated: March 2, 1979

INCO

February 20, 1979

Information Circular and Proxy Statement

This Information Circular and Proxy Statement is furnished in connection with **the solicitation by the Management of INCO LIMITED of proxies** to be used at the combined Annual and Special General Meeting of Shareholders of the Company, to be held on Wednesday, April 18, 1979, in the Ballroom, Convention Floor, Royal York Hotel, Toronto, Ontario, for the purposes set forth in the foregoing Notice of Meeting. This Information Circular and Proxy Statement and a form of proxy will be mailed to Shareholders of record entitled to vote at the meeting commencing March 2, 1979. The Company has its principal executive office at 1 First Canadian Place, Toronto, Ontario M5X 1C4 and also has an executive office at One New York Plaza, New York, New York 10004.

If the accompanying form of proxy is executed and returned, the proxy may nevertheless be revoked pursuant to subsection 108.2(5) of the Canada Corporations Act by an instrument in writing executed by the Shareholder or his attorney authorized in writing or, if the Shareholder is a corporation, executed by the Shareholder under its corporate seal or by an officer or attorney thereof duly authorized, as well as in any other manner permitted by law. Any such instrument revoking a proxy must either be deposited at the Company's head office or at one of its executive offices no later than the close of business on the last business day prior to the date of the meeting or any adjournment thereof, or be deposited with the chairman of the meeting on the date of the meeting or any adjournment thereof. If the instrument of revocation is deposited with the chairman on the date of the meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to the proxy.

Only holders of record at the close of business on March 19, 1979 of Common Shares and 7.85% Preferred Shares Series B ("Series B Preferred Shares") will be entitled to vote at the meeting or adjournments thereof. Each of such shares carries one vote. As of February 20, 1979, 74,597,925 Common Shares and 4,906,315 Series B Preferred Shares were outstanding.

All dollar amounts in this Information Circular and Proxy Statement are stated in United States dollars, unless otherwise indicated.

Election of Directors

At the meeting 10 Directors are to be elected, each to hold office for the term expiring at the Annual Meeting in 1981. Unless the Shareholder signing the accompanying form of proxy specifies that the proxy be withheld from voting on the election of Directors, the persons named in the form of proxy intend to vote the proxy for the election of the following persons, all of whom are Directors whose terms of office expire at the meeting: Charles F. Baird, David W. Barr, Robert W. Bonner, Wm. Ward Foshay, Reva Gerstein, G. Arnold Hart, John McCreedy, William Steven, Donald G. Willmot and Samuel H. Woolley.

The terms of office of the 11 Directors who are not nominees for election expire at the Annual Meeting in 1980.

The Management does not contemplate that any nominee will be unable to serve as a Director for any reason. However, should this be the case, the persons named in the accompanying form of proxy reserve the right to vote for another person of their choice in his place (unless the Shareholder signing the form of proxy has specified that the proxy be withheld from voting on the election of Directors).

The information given as to shares owned refers to Common Shares of the Company beneficially owned by Directors as of February 20, 1979 other than those subject to options exercisable within 60 days. Each Director has sole voting and investment power as to shares owned. As of such date, no Director beneficially owned any Preferred Shares. Information as to beneficial ownership, not being within the knowledge of the Company, has been furnished by the respective Directors individually. It does not include shares beneficially owned by wives and other members of the families of Directors as follows: Mr. Carter—573 Common Shares; Mr. Lambert—65 Common Shares; and Mr. Sutherland—26 Common Shares.

As of February 20, 1979, 224,419 Common Shares (including 142,161 shares subject to options exercisable within 60 days), or slightly less than one-third of one percent of the outstanding Common Shares of the Company, were beneficially owned by the Directors and Officers as a group.

As of February 20, 1979, Directors who are also Officers of the Company held options to purchase the indicated numbers of Common Shares exercisable within 60 days as follows: Mr. Carter—25,300; Mr. Baird—9,500; Mr. McCreedy—19,750; Mr. McDougall—6,600; Dr. Steven—6,500; and Mr. Sutherland—6,500.

Nominees for Election

Charles F. Baird
Director since 1974
Shares Owned—2,700

Mr. Baird, 56, is President of the Company. Prior to joining Inco in 1969, he was Under Secretary of the United States Navy and previously was with Exxon Corporation for 17 years. He was Vice-President—Finance of Inco from 1969 to 1972, Senior Vice-President from 1972 to 1975 and Vice-Chairman of the Board from 1976 to April 1977 when he became President. He is also a director of Bank of Montreal and Chairman of the Board of Trustees of Bucknell University.

1978 Board and Committee attendance: 96%.

David W. Barr
Director since 1972
Shares Owned—1,250

Mr. Barr, 68, is Chairman of the Board of Moore Corporation Limited. He has been associated with that business forms company since 1929 and became President in 1968 and Chairman in 1976. His other directorships include The Bank of Nova Scotia, Canadian Fund, Inc. and Northern Telecom Limited.

1978 Board and Committee attendance: 97%.

Robert W. Bonner, Q.C.
Director since 1973
Shares Owned—210

Mr. Bonner, 58, is Chairman of the British Columbia Hydro and Power Authority. He was Attorney-General of the Province of British Columbia from 1952 to 1968. He subsequently was Chairman of the Board of MacMillan Bloedel Limited, being associated with that company from 1968 to 1974. He is also a director of Montreal Trust Company.

1978 Board and Committee attendance: 83%.

Wm. Ward Foshay
Director since 1971
Shares Owned—3,500

Mr. Foshay, 68, is a partner in the law firm of Sullivan & Cromwell, New York City, with which he has been associated since 1935. He is also a director of Marine Midland Banks, Inc.

1978 Board and Committee attendance: 88%.

Reva Gerstein, C.M.
Director since 1976
Shares Owned—100

Dr. Gerstein, 61, is a psychologist and educator in Toronto. She has been engaged in various advisory activities for business and governmental groups for a number of years. Her other directorships include Avon Products, Limited, Maritime Life Assurance Company and McGraw-Hill Ryerson Limited.

1978 Board and Committee attendance: 88%.

G. Arnold Hart, M.B.E.
Director since 1961
Shares Owned—500

Mr. Hart, 65, is former Chairman of the Board and Chief Executive Officer of Bank of Montreal. He joined the bank in 1931, was President from 1959 to 1967, Chief Executive Officer from 1959 to December 1971 and December 1972 to 1974 and Chairman of the Board from 1964 to 1975 and retired as Chairman of the Executive Committee in April 1977. His other directorships include Bank of Montreal, Canadian Fund, Inc., Canadian Pacific Limited, Sun Life Assurance Company of Canada and Uniroyal, Inc.

1978 Board and Committee attendance: 94%.

John McCreedy
Director since 1974
Shares Owned—5,238

Mr. McCreedy, 61, is Chairman and Chief Executive Officer of Inco Metals Company, an unincorporated unit of the Company. He joined Inco in 1949. From 1967 to 1970 he was General Manager of the Manitoba Division, and during the period 1970 to 1973 he was General Manager and President of the Ontario Division. He became a Senior Vice-President of the Company in 1973 and became Chairman and Chief Executive Officer of Inco Metals in 1977.

1978 Board attendance: 100%.

William Steven
Director since 1974
Shares Owned—5,075

Dr. Steven, 61, is a Senior Vice-President of the Company and has responsibility for corporate development and technology. He joined Inco in 1947. From 1968 until 1972 he was Vice-President—Process Technology and Product Development, having formerly been in charge of the Company's Product Research and Development. In 1972, he became Senior Vice-President.

1978 Board attendance: 100%.

Donald G. Willmot
Director since 1973
Shares Owned—2,000

Mr. Willmot, 62, is Chairman of the Board of The Molson Companies Limited, which is engaged in brewing, retailing and diversified manufacturing. Prior to 1968 he was President of Anthes Imperial Limited which merged with Molson Breweries Limited in that year to form Molson Industries Limited. He became President and Chief Executive Officer of Molson's in 1968 and Chairman in 1974. His other directorships include The Bank of Nova Scotia.

1978 Board and Committee attendance: 68%.

Samuel H. Woolley
Director since 1965
Shares Owned—500

Mr. Woolley, 69, retired as Chairman of the Board of The Bank of New York in 1974. He had been associated with that bank since 1933 and became President in 1961, Chief Executive Officer in 1963 and Chairman in 1968. His other directorships include Amstar Corporation, The Bank of New York Company, Inc., Colgate-Palmolive Company and Texas Oil & Gas Corporation.

1978 Board and Committee attendance: 95%.

J. Edwin Carter
Director since 1973
Shares Owned—7,525

Mr. Carter, 63, is Chairman and Chief Executive Officer of the Company. He joined Inco in 1937 at the Company's rolling mill division in Huntington, West Virginia, of which he became President in 1971. He became Executive Vice-President of the Company in 1972, President in 1974 and Chairman and Chief Executive Officer in April 1977. He is also a director of The Toronto-Dominion Bank.

1978 Board and Committee attendance: 100%.

Directors Whose Terms of Office Expire at the Annual Meeting in 1980

Harold Bridges
Director since 1978
Shares Owned—1,000

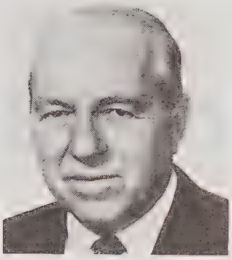
Mr. Bridges, 62, retired as President, Chief Executive Officer and Director of Shell Oil Company in 1976. He had been associated with the Royal Dutch/Shell group of companies working in their international operations in many countries since 1937. He became President and Chief Executive Officer of Shell Canada Limited in 1969. In 1970, he moved to the United States and became President and Chief Executive Officer of Shell Oil Company in July 1971.

1978 Board and Committee attendance: 67%.

Peter D. Curry
Director since 1970
Shares Owned—1,501

Mr. Curry, 66, is Deputy Chairman of Power Corporation of Canada, Limited, an investment, management and transportation company which he joined in 1974. He was President until January 31, 1979. He was previously and remains Chairman of The Investors Group. His other directorships include Ford Motor Company of Canada, Limited, Laurentide Financial Corporation Limited, The Great-West Life Assurance Company and Montreal Trust Company.

1978 Board and Committee attendance: 71%.



Albert P. Gagnebin
Director since 1965
Shares Owned—3,705

Mr. Gagnebin, 70, served as Chairman of the Board of the Company and its Executive Committee from 1972 until his retirement from these positions in 1974. He joined Inco in 1932. He became a Vice-President of the Company in 1960, Executive Vice-President in 1964 and President in 1967. His other directorships include IC Industries, Inc., Ingersoll-Rand Company, Schering-Plough Corporation, Abex Corporation and Centennial Insurance Company.

1978 Board and Committee attendance: 83%.

J. Peter Gordon
Director since 1973
Shares Owned—600

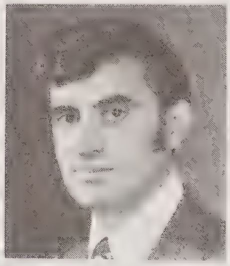
Mr. Gordon, 58, is Chairman of the Board and Chief Executive Officer of The Steel Company of Canada, Limited. He joined that company in 1946, was elected President in 1971, President and Chief Executive Officer in 1973 and Chairman in 1976. His other directorships include Bank of Montreal, Gulf Oil Canada Limited, Gulf Oil Corporation and Sun Life Assurance Company of Canada.

1978 Board and Committee attendance: 83%.

Allen T. Lambert, O.C.
Director since 1964
Shares Owned—1,000

Mr. Lambert, 67, retired as Chairman of the Board of The Toronto-Dominion Bank on April 30, 1978. He joined the bank in 1927, became President in 1960 and Chairman of the Board and President in 1961 and was Chairman and Chief Executive Officer from 1972 to May 1977 and remained Chairman until his retirement in April 1978. His other directorships include The Toronto-Dominion Bank, Cyprus Anvil Mining Corporation, The Continental Corporation, Dome Mines Limited, Hiram Walker-Gooderham & Worts Limited, Hudson Bay Mining and Smelting Co., Limited and IBM Canada Limited.

1978 Board and Committee attendance: 68%.



Ian McDougall
Director since 1977
Shares Owned—1,505

Mr. McDougall, 48, is a Senior Vice-President of the Company and has corporate responsibility for finance. He joined Inco in 1947. He became Deputy Comptroller of the Company in 1970, Comptroller in 1973 and Senior Vice-President in 1977. His other directorships include National Trust Company, Limited and The Toronto-Dominion Bank Trust Company.

1978 Board attendance: 100%.

The Rt. Hon.
Lord Nelson of Stafford
Director since 1975
Shares Owned—124

Lord Nelson, 62, is Chairman of the Board of The General Electric Company Limited, England. He was Chairman and Chief Executive Officer of the English Electric Company from 1962 to 1968. When that company merged with The General Electric Company Limited in 1968, he became its Chairman. He served as a Director of Inco from February 1966 to January 1974. His other directorships include the Bank of England.

1978 Board and Committee attendance: 12%.

George T. Richardson
Director since 1968
Shares Owned—31,500

Mr. Richardson, 54, is President of James Richardson & Sons, Limited, a financial, grain and management holding company. He has been associated with that firm since 1946 and has served as President since 1965. He is Senior Partner of Richardson Securities of Canada. His other directorships include the Canadian Imperial Bank of Commerce and he is also Governor of Hudson's Bay Company.

1978 Board and Committee attendance: 59%.

Lucien G. Rolland
Director since 1967
Shares Owned—250

Mr. Rolland, 62, is President of Rolland Paper Company, Limited. He joined that company in 1942 and became President in 1952. His other directorships include Bank of Montreal, Bell Canada, Canadian Fund, Inc., Canadian Pacific Limited and The Steel Company of Canada, Limited.

1978 Board and Committee attendance: 74%.

Ashby McC. Sutherland
Director since 1976
Shares Owned—8,575

Mr. Sutherland, 57, is a Senior Vice-President of the Company and has corporate responsibility for the public affairs, employee relations and legal functions and the Office of the Secretary. He joined Inco in 1953, and was Assistant to the Chairman from 1974 to February 1976 when he became Senior Vice-President. He was a Vice-President of the Company from 1970, Chief Legal Officer from 1972 and Secretary from 1973.

1978 Board attendance: 100%.

Information Regarding the Board, Board Committees and Officers

Board of Directors and Executive Committee

During 1978, the Board of Directors held 15 meetings and the Executive Committee held 9 meetings.

During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board. This Committee has the following members: J. Edwin Carter, chairman; Charles F. Baird; David W. Barr; Wm. Ward Foshay; G. Arnold Hart; Allen T. Lambert and Donald G. Willmot.

Audit Committee

The Audit Committee, established in 1941, is composed of 5 Directors, none of whom may be an employee of the Company. This Committee meets with the Company's financial management personnel and its independent Auditors at least 4 times a year to review financial reporting matters, internal accounting controls and procedures, the planned scope of examinations by both internal auditors and independent Auditors, and their findings and recommendations. It also recommends to the Board the independent Auditors to be proposed to the Shareholders for appointment at the Annual Meeting. This Committee, which held 4 meetings in 1978, has the following members: Samuel H. Woolley, chairman; Robert W. Bonner; Albert P. Gagnebin; J. Peter Gordon and Lucien G. Rolland.

Nominating Committee

The Nominating Committee, established on January 3, 1979, recommends to the Board nominees for election as Directors. Members of this Committee are the same Directors as those who serve on the Executive Committee.

Shareholders wishing to have a person considered by the Nominating Committee for nomination should submit the request, including biographical data regarding such person, to the Secretary of the Company.

Salary and Incentive Plan Committee

The Salary and Incentive Plan Committee, established in 1969, is composed of 5 Directors, none of whom may be an employee of the Company. This Committee advises and consults with the Chairman and reports and makes recommendations to the Board on the remuneration of senior executives of the Company. This Committee also makes recommendations to the Board with respect to incentive compensation plans and has administered and made recommendations for awards under the 1968 Key Employees Incentive Plan of the Company. This Committee will perform similar functions with respect to the proposed 1979 Key Employees Incentive Plan discussed on pages 19 to 25, if such plan is approved by Shareholders.

This Committee, which held 8 meetings in 1978, has the following members: G. Arnold Hart, chairman; David W. Barr; Wm. Ward Foshay; Allen T. Lambert and Donald G. Willmot.

Pension Committee

The Pension Committee, established in 1974, is composed of 5 Directors, none of whom may be an employee of the Company. This Committee has the function of advising the Board, the Executive Committee, the Chairman, the President and other executive officers, as they may request or as the Pension Committee on its own initiative may consider appropriate, regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound

investment of pension funds. In addition, this Committee recommends to the Board or the Executive Committee the appointment of trustees and investment advisers or managers.

This Committee, which held 2 meetings in 1978, has the following members: Peter D. Curry, chairman; Harold Bridges; Reva Gerstein; Lord Nelson and George T. Richardson.

Remuneration of Directors and Officers

The remuneration paid or payable in or in respect of 1978 by the Company and its subsidiaries to Directors and Officers of the Company, while serving as such, was as follows:

	NATURE OF 1978 REMUNERATION					
	Directors' Fees	Salaries	Previously Granted Incentive Awards(1)	1978 Incentive Compensation	Security Reserve Plans & Personal Benefits(2)	Total(3)
REMUNERATION OF DIRECTORS[4] (16)						
Corporation Incurring the Expense						
INCO LIMITED	$199,000	—	$ 3,000	—	$ 18,000	$ 220,000
REMUNERATION OF OFFICERS[5] (33)						
Corporation Incurring the Expense						
INCO LIMITED	—	$2,615,000	132,000	—	114,000	2,861,000
Subsidiaries of Company	—	92,000	5,000	—	84,000	181,000
TOTAL TO ALL DIRECTORS AND OFFICERS (49)	$199,000	$2,707,000	$140,000	—	$216,000	$3,262,000
J. Edwin Carter, Chairman and Chief Executive Officer	—	$ 285,000	$ 23,000	—	$ 13,000	$ 321,000
Charles F. Baird, President	—	200,000	16,000	—	7,000	223,000
John McCreedy, Chairman and Chief Executive Officer of Inco Metals Company	—	140,000	16,000	—	4,000	160,000
Ian McDougall, William Steven and Ashby McC. Sutherland, Senior Vice-Presidents, and Donald J. Phillips, President and Chief Operating Officer of Inco Metals Company, in the aggregate	—	440,000	39,000	—	17,000	496,000

(1) Consists of payments under the 1968 Key Employees Incentive Plan of maturing incentive units which were awarded in 1973, maturing share units which were awarded in 1971 to a former Officer who is a Director and dividend equivalents paid in 1978 as described on page 11.

(2) Includes employer contributions to the Company's security reserve plans described on page 12.

(3) Does not include employer contributions to the Company's non-contributory retirement systems. Such contributions are based on the aggregate level funding method and accordingly the contribution for any one individual cannot be readily calculated. The aggregate pension contribution rate for all employees approximated 11% of base salary for the year 1978. See "Retirement Systems" on page 12.

(4) Only Directors who are not Officers.

(5) Includes Officers named in this table. Each of the Officers of the Company received remuneration in excess of $40,000 (Cdn.) for the year 1978.

Arrangements for Remuneration of Directors

Included in the table on page 10 under Directors' fees are amounts paid to non-employee Directors of the Company for serving on the Board of Directors and various Committees of the Board in accordance with standard remuneration arrangements of the Company. Such Directors receive an annual fee of $7,200 and $300 for each Board meeting attended. Except as noted below, they also receive an annual fee of $2,000 for each Committee on which they serve, the Committee chairman receives an additional $1,000 for serving in that capacity, and each member of the Committee receives $300 for each Committee meeting attended.

During 1978, members of the Audit, Pension and Salary and Incentive Plan Committees did not receive attendance fees, but commencing in 1979 are receiving $300 for each meeting attended. Members of the Salary and Incentive Plan Committee do not receive an attendance fee for a meeting on the same day on which the Executive Committee meets. Members of the Nominating Committee do not receive any remuneration for serving on that Committee.

Directors who are employees of the Company do not receive Directors' fees.

1968 Incentive Plan and Other Arrangements with Officers

The Key Employees Incentive Plan approved by the Shareholders in 1968 (the "1968 Plan") ended on July 16, 1978 except with respect to stock options and awards of supplemental compensation then outstanding. At this meeting Shareholders are being asked to approve a new 1979 Key Employees Incentive Plan, which is discussed on pages 19 to 25.

In 1978, no cash or other awards of supplemental compensation were made under the 1968 Plan. The tables on page 21 show the options to purchase Common Shares which have been granted under the 1968 Plan since January 1, 1978 and the number of Common Shares subject to unexercised options under such Plan as of February 20, 1979.

Incentive units awarded in 1973 and paid in 1978 to Officers are included in the table on page 10. Each incentive unit entitled the recipient to a payment equal to the excess (if any) of the average of the earnings per Common Share of the Company (after taxes but before any extraordinary items) for the three years preceding the year of payment over the unit's "basis" of $1.83 (being the average of such earnings per share for the three years preceding the year of grant) multiplied by a factor of twenty. As of February 20, 1979, there were no outstanding incentive units under the 1968 Plan.

Share units awarded in 1971 to a former Officer who is a Director and paid in 1978 are included in the table on page 10. The number of share units outstanding as of February 20, 1979 to Directors and Officers as a group was 2,193 units. Share units awarded under the 1968 Plan generally become payable five years after the grant of the award (subject to forfeiture under certain circumstances). They are paid either in Common Shares or in cash equal to the then market value of such shares, at the election of the Company.

Until payment or forfeiture of share units, each recipient is entitled to receive cash payments equal to the amount per share of any cash dividends paid on the Common Shares multiplied by the number of units remaining credited to the recipient's account on the record date. Similar payments were made in respect of incentive units. "Dividend equivalents" paid in 1978 to Directors and Officers in respect of share and incentive units are included in the table on page 10.

Directors as such were not eligible to participate in the 1968 Plan.

In addition, to encourage key employees to remain in the Company's service, each of Messrs. Carter, Baird, McCreedy, McDougall, Steven, Sutherland and Phillips and 6 other executives will be entitled, in the event of discharge (except for cause) or resignation under circumstances making his resignation not wholly voluntary, to continue to receive his total compensation (including participation in certain medical, insurance and similar plans) for a limited period not exceeding 36 months, to receive payment of any outstanding incentive compensation awards and to exercise any stock options held at termination of employment. Such rights are in lieu of any rights he would have had at common law and are in addition to rights he may have under other benefit plans upon termination of employment.

Security Reserve Plans

Under the security reserve plans of the Company and its subsidiaries, participating employees may elect to contribute from 1% to 6% of base pay with the employer matching 50% of employee contributions, except that, if an employee was participating in a previous plan which was in effect through June 30, 1973, he may continue to elect to contribute 2% of base pay with the employer matching 100% of his contributions. Directors as such are not eligible to participate. These funds, which are invested by professional investment managers and held by independent trustees, become distributable in whole or as to vested amounts upon retirement, death or other termination of employment, or upon discontinuance of the particular plan. Subject to various conditions, a participating employee may also make withdrawals during employment.

Retirement Systems

The amount of pension benefits payable under the Company's retirement systems to any particular employee, including an Officer, is dependent, among other factors, upon his years of credited service and his average final base salary and upon whether his pension is pursuant to an optional form of payment providing a pension during his life and after his death, either in approximately the same or a lesser amount, for the life of his spouse if his spouse should survive him. The estimated aggregate cost to the Company and its subsidiaries in 1978 of all pension benefits proposed to be paid under the Company's retirement systems to the Officers as a group upon retirement at age 65 was $293,000.

The table below illustrates the amount of maximum annual pension for an employee retiring at age 65 in 1979 who has not elected an optional form of payment. Most employees elect an optional form of payment providing a pension for a surviving spouse which substantially reduces the annual pension payable to the employee.

Average Annual Base Salary in Best Five of Last Ten Years of Credited Service	APPROXIMATE MAXIMUM ANNUAL PENSION — YEARS OF CREDITED SERVICE			
	10	20	30	40
$ 40,000	$ 4,500	$10,100	$ 15,700	$ 21,600
60,000	7,500	16,100	24,700	33,600
80,000	10,500	22,100	33,700	45,600
100,000	13,500	28,100	42,700	57,600
150,000	21,000	43,100	65,200	87,600
200,000	28,500	58,100	87,700	117,600
250,000	36,000	73,100	110,200	147,600
300,000	43,500	88,100	132,700	177,600

Taking into account the various factors affecting their individual pension entitlements and assuming their base salary continued at the rate in effect at the end of 1978, the actual annual pensions payable at age 65 to Messrs. Carter and Baird are estimated to be $129,000 and $70,000, respectively.

Certain Interests of Directors

During 1978, subsidiaries of the Company were indebted to the following banks or one of their subsidiaries of which the persons listed are directors, in each case in an amount exceeding $5,000,000: Bank of Montreal—Messrs. Baird, Hart, Gordon and Rolland; The Bank of New York Company, Inc.—Mr. Woolley; The Bank of Nova Scotia—Messrs. Barr and Willmot; and The Toronto-Dominion Bank—Messrs. Carter and Lambert.

$296,000 was paid to the firm of Sullivan & Cromwell, of which Mr. Foshay is a member, as fees for legal services rendered in 1978.

Directors and Officers Liability Insurance

The Directors and Officers of the Company as a group are insured against certain liabilities pursuant to directors and officers liability insurance policies obtained by the Company. The general effect of these policies is that, if during the policy period any claims are made against Directors or Officers of the Company for a wrongful act (as defined) while acting in their capacities as Directors or Officers, the insurers will pay for loss (as defined) which the Directors or Officers shall become obligated to pay in excess of $10,000 per occurrence, up to a limit of $20,000,000 in a policy year.

The premium for such insurance in 1978 was $104,000. The entire premium was paid by the Company.

Continuance Under the Canada Business Corporations Act and Certain Charter Amendments

Summary

The Shareholders of the Company will be asked to consider and, if thought fit, to pass a special resolution authorizing the Board to apply under the Canada Business Corporations Act (the "CBCA") for the issuance of a certificate of continuance which would continue the Company under the CBCA and make certain amendments to the charter of the Company. Upon continuance, the Company would cease to be subject to the Canada Corporations Act (the "CCA") and the Company would be governed by the provisions of the CBCA as if the Company had been incorporated under that Act.

The CBCA is a federal statute which came into force on December 15, 1975. The main purposes of the CBCA are the strengthening of shareholder rights and the simplification of corporate procedures. The Company is required to be continued under the CBCA no later than December 15, 1980, failing which the Company would be dissolved automatically.

If the special resolution is passed, the articles of continuance contained in the special resolution will constitute the charter of the Company. The text of the special resolution appears on pages 26 to 45 as Exhibit A and the dollar amounts referred to therein are stated in Canadian dollars.

Principal Charter and Statutory Changes

The principal differences between the proposed articles of continuance and the present charter of the Company, and what appear to be the most significant differences between the CCA and the CBCA affecting the Company and its Shareholders, are as follows:

1. **Capitalization.** The proposed articles of continuance provide that the share capital of the Company shall consist of (i) an unlimited number of Common Shares and (ii) 30,000,000 Preferred Shares issuable in series with the issue price per share of the shares of each series to be not less than $1.00 (Cdn.) per share or more than $100.00 (Cdn.) per share, subject to an aggregate issue price for the

Preferred Shares of $750,000,000 (Cdn.).

Under the present charter of the Company the authorized Common Shares are limited to 100,000,000 shares, and it is proposed that this limit be removed as permitted by the CBCA.

The Company's present charter states that, in addition to the Common Shares, the authorized share capital of the Company consists of 30,000,000 Preferred Shares issuable in series with the par value for the shares of each series to be not less than $1.00 (Cdn.) per share or more than $100.00 (Cdn.) per share, subject to an aggregate par value for the Preferred Shares of $750,000,000 (Cdn.). Under the terms of the Series B Preferred Shares, the Company is required to use reasonable efforts to purchase in the market during each calendar quarter (commencing with the third quarter of 1978) 37,500 Series B Preferred Shares if available at a price not exceeding $25.00 (Cdn.) per share. Under the CCA, any Preferred Shares that are purchased or redeemed by the Company are required to be cancelled and cease to be authorized. Accordingly, by reason of the Company's purchases of 97,200 Series B Preferred Shares pursuant to the above-mentioned purchase obligation, the aggregate number and dollar amount of the Preferred Shares originally authorized have been reduced to 29,902,800 shares and $747,570,000 (Cdn.), respectively, as of February 20, 1979. It is proposed that, to the extent that the number-of-shares and dollar limits on the Preferred Shares have been reduced below 30,000,000 shares and $750,000,000 (Cdn.), respectively, at the time of continuance under the CBCA, such limits would be restored to 30,000,000 shares and $750,000,000 (Cdn.), respectively.

Under the CBCA, the Board would be able to take advantage of the provisions of that statute which permit Preferred Shares that are purchased or redeemed by the Company to be restored to the status of authorized but unissued shares and to be subsequently reissued (as shares of another series in the case of any Floating Rate Preferred Shares Series A and Series B Preferred Shares that are purchased or redeemed by the Company) subject to the class limit that no more than 30,000,000 Preferred Shares having an aggregate issue price of $750,000,000 (Cdn.) may be outstanding at any one time.

Under the proposed articles of continuance, the Board would have the right to issue additional Common Shares without further Shareholder approval and would have the right to issue additional Preferred Shares within the authorized limit without further Shareholder approval. However, the Board has no present commitments or plans to issue any additional Common Shares other than shares to be issued by way of optional stock dividends on outstanding Series B Preferred Shares and on outstanding Common Shares (see paragraphs 2 and 3 below) and shares to be issued under the Company's 1968 Key Employees Incentive Plan or under the Company's proposed 1979 Key Employees Incentive Plan (see "1979 Key Employees Incentive Plan" on pages 19 to 25). The Board has no present commitments or plans to issue any additional Preferred Shares other than Series B Preferred Shares to be issued by way of optional stock dividends on outstanding Series B Preferred Shares (see paragraph 2 below). As is the case under the present charter, there would be no pre-emptive rights with respect to the issuance of additional shares.

2. **Series B Preferred Share Optional Stock Dividend Provisions.** The provisions of the Preferred Shares contained in the proposed articles of continuance are the same as the comparable provisions of the present charter except for two provisions of the Company's

Series B Preferred Shares regarding the issuance of optional stock dividends on the Series B Preferred Shares (apart from the capital increase noted in paragraph 1 above and the minor language differences noted in paragraph 4 below).

The first change from the existing provisions relates to the issue price of Series B Preferred Shares issued by way of stock dividend to those Shareholders who elect to take dividends in the form of additional Series B Preferred Shares rather than cash dividends. When the Series B Preferred Shares were offered for sale in late 1977, the Company announced that the Board had adopted a policy that, through the dividend scheduled for March 1, 1980, the holders of Series B Preferred Shares would be given the right to elect to receive, in lieu of cash dividends, dividends in the form of additional Series B Preferred Shares (or, in the alternative, dividends in the form of Common Shares through the dividend scheduled for March 1, 1983). The CCA requires the Board to issue Series B Preferred Shares at their par value of $25.00 (Cdn.) per share and, under the terms of the stock dividend provision, the additional Series B Preferred Shares issued by way of stock dividends must have a value, as determined by the Board, that is substantially equivalent as of the relevant valuation time to the cash amount of the dividend. Accordingly, the Board determined that additional Series B Preferred Shares would not be issued by way of stock dividends at any time when the relevant market value of such shares was in excess of $26.00 (Cdn.) per share.

However, under the CBCA, which generally eliminates the concept of par value shares, the Board would not be required to issue the additional Series B Preferred Shares at $25.00 (Cdn.) per share if permitted to do otherwise by the terms of the Series B Preferred Shares. The proposed articles of continuance take advantage of the elimination of the concept of par value by providing that, if the per share value of any Series B Preferred Shares issued by way of stock dividend is determined by the Board to be other than $25.00 (Cdn.), such shares may, in the discretion of the Board, be issued at such value. Whether issued at $25.00 (Cdn.) per share or at some other amount, the additional Series B Preferred Shares issued by way of stock dividend would be required to have a value, as determined by the Board, that is substantially equivalent to the cash amount of the dividend. Shares issued at an amount other than $25.00 (Cdn.) would have the same purchase, redemption and liquidation provisions as the shares issued at $25.00 (Cdn.), i.e., purchase, redemption and liquidation provisions based on $25.00 (Cdn.). Although the proposed amendment as to issue price would become effective upon continuance under the CBCA, the Board will consider taking advantage of the flexibility offered by the proposed amendment only if the Board should determine to continue beyond March 1, 1980 to permit Series B Preferred Shareholders to take stock dividends in the form of Series B Preferred Shares in lieu of cash dividends.

The second change relates to the time as of which the Board is required to determine the value of the shares issued by way of stock dividend, whether such shares are additional Series B Preferred Shares or are shares of another series or class. Under the present provisions, the Board is required to determine the value of the shares issued by way of stock dividends as of the declaration date of the dividend. The proposed articles of continuance would permit the Board to determine such value either as of any particular day — which need not be the declaration date — or over any period of days. Subject to the amendment becoming

effective, the Board intends to change the valuation date from the declaration date to the record date for the dividend, but in the future the Board may wish to use some other date or period of days. The proposed amendment would provide this flexibility to the Board.

3. **Common Share Optional Stock Dividend Provisions.** The proposed articles of continuance also contain three changes in the Common Share optional stock dividend provisions. Details of the Company's Optional Stock Dividend Program for holders of Common Shares are contained in a prospectus dated January 10, 1979 which has been mailed to such holders.

First, a change is proposed in the requirement that the additional Common Shares issued to Common Shareholders as stock dividends have a value, as determined by the Board, that is substantially equivalent as of the relevant valuation time to the cash amount of the dividend. This change permits the additional Common Shares issued as stock dividends to be valued at a discount of up to 5% from the relevant market value of the shares. The change is designed to make the Company's Optional Stock Dividend Program for holders of Common Shares more attractive to Shareholders, although the Board has not yet determined whether it will take advantage of the change if it should become effective.

Under the existing Common Share optional stock dividend provisions, the Board is required to determine the value of the Common Shares issued by way of stock dividend as of a particular day specified by the Board. The second proposed change would enable the Board to determine such value either as of any particular day or over any period of days. Subject to the proposed amendment becoming effective, the Board plans, commencing with the Common Share dividend scheduled to be considered for declaration in July, 1979, to determine the value of the shares issued by way of stock dividend on the basis of the average market value of the shares over a period of five days ending on the dividend payment date rather than as of a particular day.

Under the existing Common Share optional stock dividend provisions, Shareholders are to receive cash in lieu of any fractional interests in shares to which they would otherwise be entitled unless the Board otherwise determines. The Board has determined that, commencing with the Common Share dividend scheduled to be considered for declaration in July, 1979 and subject to the Company being previously continued under the CBCA, the Company will issue fractional shares rather than pay cash in lieu of issuing fractional shares. Under the CBCA, the Company will not be entitled to pay dividends in respect of such fractional shares unless the Company's charter so provides. Accordingly, the third change will entitle Shareholders to receive dividends in respect of fractional shares.

Under the CBCA, the Company will continue to have the right to issue stock dividends to all Common Shareholders at any time or on a regular basis, in addition to issuing stock dividends in lieu of cash dividends to Shareholders participating in the Company's Optional Stock Dividend Program.

4. **Conforming Changes.** Under the CBCA, the authorized number of Preferred Shares is described in slightly different language than under the CCA, as the new statute has generally eliminated the concept of par value shares. Changes made to the language prescribing the terms of the Preferred Shares (including the outstanding Floating Rate Preferred Shares Series A and Series B Preferred Shares) in order

to remove references to par value and to make other minor language changes required for conformity with the CBCA do not affect such terms in a substantive way.

5. **Number of Directors.** The CBCA, unlike the CCA, permits flexibility in the number of Directors, and the proposed articles of continuance provide that the number of Directors of the Company will be such number, not less than 12 nor more than 25, as may be determined from time to time by the Board. Under the proposed new By-law No. 1 discussed on pages 18 and 19 the Board would, as at present, be divided into two classes with one of the classes to be elected at each annual meeting for a 2-year term. The number of Directors in one class may not exceed the number of Directors in the other class by more than 3. The proposed new By-law No. 1 provides that, if between any 2 consecutive Annual Meetings of Shareholders the Board of Directors decides to increase by more than 2 the number of its members within the range of 12 to 25, the new places on the Board in excess of 2 must be filled at a meeting of Shareholders; subject to this rule, if at any time there are fewer Directors in office than the number determined by the Board, the Board may appoint additional persons to the Board to fill the vacancies. The Board has no immediate intention of changing the number of Directors from the current number of 21.

6. **French Version of Name.** As permitted by the CBCA, the proposed articles of continuance provide for a French-language version of the Company's name.

7. **Head Office.** Under the proposed articles of continuance, the Company's head office—referred to as the registered office under the CBCA—would be in Toronto, Ontario. At present the Company's head office is in Sudbury, Ontario. The proposed change from Sudbury to Toronto reflects the fact that the Company's principal executive office is located in Toronto.

8. **Purchase by Company of its Shares.** Under the CBCA, so long as the Company meets certain solvency tests, it would be permitted to purchase or otherwise acquire its issued shares of any class (subject to restrictions in this regard in the terms of the shares). In contrast, the CCA does not allow the purchase of Common Shares. The Company has no present plans to purchase any of its outstanding Common Shares.

9. **Resident Canadian Requirements.** Under the CBCA, a majority of the members of the Board and of Committees of Directors must be resident Canadians. The CCA contains no such requirements, but in fact a majority of the members of the Board and of each such Committee are presently resident Canadians.

10. **Certain Rights of Shareholders and Others.** Under the CBCA, a Shareholder who dissents from certain fundamental changes submitted to Shareholders will have the right, subject to complying with the provisions of the statute in that regard, to require the Company to purchase his shares at their fair value, and, if the Shareholder and the Company do not agree as to such value, the value will be judicially determined. These fundamental changes include certain major changes in the Company's charter, amalgamation with an unrelated corporation, a change in the Company's jurisdiction of incorporation, and a sale, lease or exchange of all or substantially all the Company's property otherwise than in the ordinary course of business. Under the CCA, a Shareholder has no such right.

Under the CBCA, a Shareholder would have the right, with the permission of a court, to bring a derivative action to enforce any right

of the Company which the Company had not itself enforced. In addition, any Shareholder, creditor, Director or Officer of the Company could apply to a court for rectification of any action taken by the Company which, in the court's opinion, was oppressive or unfairly prejudicial to or unfairly disregarded the interests of any such person. There are no comparable rights under the CCA, and such rights are relatively limited in scope under the common law.

11. **Corporate Procedures.** The CBCA enables certain corporate procedures, such as procedures regarding the appointment of Officers and the description of their duties, to be prescribed by standing resolutions of the Board rather than being contained in the Company's by-laws, which may be amended only with Shareholder approval. Furthermore, the CBCA provides for a number of corporate procedures, such as the establishment of record dates, that are not covered by the CCA on a comprehensive basis.

Shareholders' Approval

In view of the proposed changes in the authorized number of Preferred Shares and Common Shares and in the terms of the Series B Preferred Shares and Common Shares, it will be necessary for the special resolution to be passed by separate votes of the Series B Preferred Shareholders and the Common Shareholders present or represented at the meeting. In the case of each vote, the special resolution must be passed by at least two-thirds of the votes of the Shareholders present or represented and voting on the special resolution. If the special resolution is passed, the Board will apply shortly thereafter for a certificate of continuance to continue the Company under the CBCA and to make the amendments to the charter of the Company provided for by the special resolution. **It will not be necessary for a Shareholder to submit his share certificate or certificates for replacement with a new certificate.**

The Board of Directors recommends that the Shareholders vote for the approval of the special resolution, and the persons named in the accompanying form of proxy intend to vote the proxy for the approval of the special resolution unless the Shareholder signing such form of proxy specifies that it be voted against the approval of the special resolution. Shareholders who vote against the special resolution will not have the right to have their shares appraised and receive the value thereof from the Company.

Financial statements are not included herein because they are not considered material for the exercise of prudent judgment by Shareholders in regard to the proposed changes under the articles of continuance.

New General By-law—By-law No. 1

The Shareholders will be asked to consider and, if thought fit, to confirm By-law No. 1 of the Company which has been enacted by the Board of Directors. By-law No. 1 would be effective upon continuance of the Company under the CBCA. Management is proposing By-law No. 1 so that, upon continuance of the Company under the CBCA, the Company would have a general by-law that is consistent with the provisions of the CBCA and with the articles of continuance. The new general by-law (appearing on pages 46 to 50 as Exhibit B) would repeal all the existing by-laws of the Company.

By-law No. 1 would take advantage of the provisions of the CBCA that enable simplification of, and greater flexibility in, a number of corporate procedures. For example, as noted above under "Continuance Under the Canada Business Corporations Act and Certain Charter

Amendments", under the CBCA certain corporate rules may be prescribed by standing resolutions of the Board rather than by the Company's by-laws. The new general by-law would also update a number of corporate procedures. Management believes that none of the changes would adversely affect the rights of Shareholders in any material respect.

The Company's present general by-law provides for the indemnification of Directors to the extent permitted by the CCA. Section 3.12 of proposed By-law No. 1 would provide for the Company to indemnify its Directors and Officers and certain other persons, subject to specified statutory limitations, for certain litigation and other expenses incurred by them. The CBCA, unlike the CCA, provides for the indemnification of Officers and certain other persons as well as Directors, and Section 3.12 follows the broader provision of the CBCA in this regard.

To become effective, By-law No. 1 must be confirmed by a majority of the votes cast by the Shareholders present or represented at the meeting who vote in respect of the by-law. Subject to being confirmed by the Shareholders, the by-law would become effective upon issuance of the certificate of continuance continuing the Company under the CBCA.

The Board of Directors recommends that the Shareholders vote for the confirmation of By-law No. 1, and the persons named in the accompanying form of proxy intend to vote the proxy for the approval of By-law No. 1 unless the Shareholder signing such form of proxy specifies that it be voted against the confirmation of By-law No. 1.

1979 Key Employees Incentive Plan

Summary

The Board has adopted the 1979 Key Employees Incentive Plan (the "1979 Plan") subject to approval by the Shareholders at the meeting. The 1979 Plan was adopted in light of the problems involved in providing effective incentive compensation to retain and attract or provide additional incentive to key employees of the Company and its subsidiaries in the many countries where those employees are now, and over the future years are expected to be, employed. The 1979 Plan succeeds the expired Key Employees Incentive Plan approved by the holders of the Company's Common Shares in 1968 (the "1968 Plan") which, like the expired 1956 Key Employees Stock Option Plan, was an important aid to the Company in attracting and retaining individuals of high calibre and in motivating their maximum efforts on behalf of the Company. The Board believes that the 1979 Plan will aid the Company to continue to maintain and improve its position in the highly competitive market for executive talent. The text of the 1979 Plan appears on pages 50 to 53 as Exhibit C.

The 1979 Plan, like the 1968 Plan, has two aspects. First, the 1979 Plan authorizes the granting of options to purchase not more than 1,000,000 Common Shares to key employees of the Company and its subsidiaries, but, unlike the 1968 Plan, also contains provisions for the grant of share appreciation rights in connection with share options. Second, the 1979 Plan authorizes the making of awards of incentive compensation in the form of immediate or deferred payments or deliveries of cash or shares or incentive units or share units or other types of compensation, subject to such terms, conditions and restrictions as the Committee administering the Plan may determine. In general, the total amount of such awards may not exceed 1% of the consolidated earnings of the Company before income and mining taxes during the period of the Plan. Any shares which may be distributed as awards of incentive

compensation under the 1979 Plan will be in addition to shares delivered under options or share appreciation rights granted pursuant to the Plan. Under the 1968 Plan, annual cash bonuses paid to key employees to reward them for recent performance were charged against the Incentive Fund for the relevant year. Any such bonuses that might be paid in the future will be paid outside the 1979 Plan.

The Board has determined that the 1979 Plan should have a term of 5 years rather than a term of 10 years as in the case of the 1968 Plan. Accordingly, under the 1979 Plan, no share options or related share appreciation rights may be granted after April 17, 1984 and no awards of incentive compensation may be made in respect of any year after 1983 .

Directors as such will not be eligible to participate in the 1979 Plan.

Share Options and Share Appreciation Rights

The 1979 Plan contains many of the features of the 1968 Plan relating to share options, namely, (i) the option price cannot be less than 100% of the market value of the Company's Common Shares at the time the option is granted; (ii) all shares purchased must be fully paid for in cash at the time the option is exercised; (iii) no option may be exercised more than ten years after it is granted; and (iv) in the event of a share subdivision, share dividend (other than an optional share dividend in lieu of a cash dividend) or other relevant change in capitalization, appropriate adjustment will be made in the number of shares available for or subject to options and in the option price per share under each outstanding option.

In addition, the 1979 Plan authorizes the grant of share appreciation rights in connection with any share option (either at the time of grant of the share option or at any time thereafter). In general, a share appreciation right issued in conjunction with a share option provides the option holder with an alternative to exercising his share option by entitling him to surrender unexercised the option to which the right relates (or a portion thereof), and to receive upon such surrender a lesser number of shares having an aggregate value equal to the excess of the then market value of one share over the purchase price per share specified in the option, multiplied by the number of shares covered by the option (or portion of option) so surrendered. At the election of the Company or the subsidiary granting such right, the amount of such appreciation in market value over the option purchase price may be paid in cash rather than in shares, or in a combination of cash and shares (shares being valued for such purpose at their market value at the time of exercise of the share appreciation right).

Under the 1979 Plan, if an option terminates or expires unexercised, the shares which were subject to the option may be reoptioned; however, if an option is surrendered unexercised in conjunction with the exercise of a related share appreciation right, the shares subject to the surrendered option may not be reoptioned under the Plan. The 1979 Plan also authorizes the grant of share appreciation rights in connection with share options outstanding under the 1968 Plan. At February 20, 1979, options for 915,969 Common Shares were outstanding under the 1968 Plan.

The following table shows as to those Officers named in the table on page 10, and as to all present Officers as a group (i) the number of Common Shares subject to options granted to such persons since January 1, 1974, (ii) the number of Common Shares acquired by such persons since that date through exercise of options granted since that date or prior thereto, (iii) the number of Common Shares sold by

such persons from January 1, 1974 through February 20, 1979 and (iv) the number of Common Shares subject to all unexercised options held by such persons as of February 20, 1979:

Name	January 1, 1974 to February 20, 1979: Options granted: Number of shares	Options granted: Average per share option price	Shares received on option exercises	Aggregate option price of options exercised	Aggregate market value of shares on dates options exercised	Number of shares sold	Unexercised options held as of February 20, 1979: Number of shares	Average per share option price
J. E. Carter	34,000	$21.23	2,000	$54,380	$63,000	—	47,500	$26.94
C. F. Baird	17,000	19.25	—	—	—	—	24,000	25.12
J. McCreedy	11,000	20.97	—	—	—	—	28,250	34.27
I. McDougall, W. Steven, A. McC. Sutherland and D. J. Phillips, in the aggregate	29,000	20.93	—	—	—	—	53,400	29.68
All present Officers as a group (27 persons)	157,050	20.57	2,350	63,334	73,806	—	270,550	28.79

The table below sets forth as to those Officers named in the table on page 10, as to all present Officers as a group and as to certain past Officers information with respect to options to purchase Common Shares granted to such persons since January 1, 1978. Options granted to the 27 present Officers set forth in the table above include options to purchase 91,950 Common Shares granted to such Officers since January 1, 1978 which are also set forth in the table below. No options have been exercised by this group since January 1, 1978.

1978 OPTIONS GRANTED

Name	Date of grant	Number of shares	Per share option price	Range of market prices during quarter options granted	Expiration date
J. E. Carter	May 1, 1978	18,000	$15.94	$19.00-$15.50	April 30, 1988
C. F. Baird	May 1, 1978	12,000	15.94	19.00- 15.50	April 30, 1988
J. McCreedy	May 1, 1978	6,000	15.94	19.00- 15.50	April 30, 1988
I. McDougall, W. Steven, A. McC. Sutherland and D. J. Phillips, in the aggregate	May 1, 1978	16,000	15.94	19.00- 15.50	April 30, 1988
All other present Officers	May 1, 1978	39,350	15.94	19.00- 15.50	April 30, 1988
	July 6, 1978	600	15.57	18.00- 15.25	July 5, 1988
All present Officers as a group (27 persons)	May 1, 1978	91,350	15.94	19.00- 15.50	April 30, 1988
	July 6, 1978	600	15.57	18.00- 15.25	July 5, 1988
Five past Officers	May 1, 1978	8,400	15.94	19.00- 15.50	April 30, 1988
	July 6, 1978	700	15.57	18.00- 15.25	July 5, 1988
Total	May 1, 1978	99,750	15.94	19.00- 15.50	April 30, 1988
	July 6, 1978	1,300	15.57	18.00- 15.25	July 5, 1988

In addition, other employees, including other former Officers, have been granted options since January 1, 1974 for 532,550 Common Shares of the Company at an average option price per share of $20.77. The last reported sale of the Company's Common Shares reported as New York Stock Exchange-Composite Transactions on February 20, 1979 was $19.00. On such date, the last reported sale of the Company's Common Shares on the Toronto Stock Exchange was $22.75 (Cdn.).

Incentive Compensation

The 1979 Plan, like the 1968 Plan, also authorizes the making of awards of incentive compensation in various forms, provided they do not exceed the limitations which are dependent upon earnings as specified in the Plan. Under the 1979 Plan, the maximum Incentive Fund for awards of incentive compensation in respect of any year will be (i) 1% of the sum of consolidated net earnings of the Company and consolidated subsidiaries and provisions for income and mining taxes in such year plus (ii) the excess, if any, of the aggregate amount of the Incentive Funds for prior years over the amounts charged against such Funds pursuant to the Plan for awards made in such prior years. Under the 1968 Plan, the maximum Incentive Fund was (i) 2% of the sum of consolidated net earnings and provisions for income taxes plus (ii) any unused portion of the Incentive Fund for the immediately preceding year.

Unlike the 1968 Plan which provided for the entire amount of an award to be charged against the Incentive Fund for the year in respect of which the award was made, the 1979 Plan permits a portion of any award which is measured by or otherwise dependent upon future earnings of the Company and consolidated subsidiaries to be charged against such year's Incentive Fund with the remainder to be charged against Incentive Funds for subsequent years. If such alternative method of charging is utilized, no awards of incentive compensation may be made in respect of subsequent years under the Plan until the total value (as determined by the Committee administering the Plan) of all awards in respect of prior years shall have been charged against an Incentive Fund or Funds.

It would be possible, as was done under the 1968 Plan, to award share units and incentive units and to make other forms of deferred or immediate incentive compensation. For example, it would be possible to make awards which are similar in substance to share appreciation rights but which are not related to a share option.

As in the past, the Company intends, when appropriate, to make annual cash awards to selected employees to reward them for recent performance. Such awards, if made, will be paid outside the 1979 Plan and not charged against any Incentive Fund. Under the 1968 Plan, annual cash awards made to key employees were charged against the Incentive Fund for the year in respect of which such awards were made.

Under the 1968 Plan, awards totalling $13,136,000 were made in respect of the 10-year period of the Plan. Awards made in respect of the five years 1974-1978 totalled $5,869,000, consisting of $4,989,000 of annual cash awards and $880,000 of share unit awards. The Officers named in the table on page 10, all present Officers as a group and other employees (including former Officers) participated in these awards as follows:

Name	1974	1975	1976	1977	1978
J. E. Carter	$ 88,000	$ 50,000	$ 60,000	—	—
C. F. Baird	55,000	30,000	35,000	—	—
J. McCreedy	50,000	22,000	24,000	—	—
I. McDougall, W. Steven, A. McC. Sutherland and D. J. Phillips, in the aggregate	133,000	76,000	81,000	—	—
All present Officers as a group	$ 634,000	$ 349,000	$ 420,000	—	—
Other employees (including former Officers)	2,565,000	969,000	932,000	—	—
Total	$3,199,000	$1,318,000	$1,352,000	—	—
Number of participants during each year:					
Officers	25	27	25	—	—
Other employees (including former Officers)	138	143	149	—	—
Total	163	170	174	—	—

Employees eligible to participate in the 1979 Plan are also eligible to participate in the retirement systems and security reserve plans which are described on page 12.

Tax Treatment of Share Options, Share Appreciation Rights and Incentive Compensation Awards

Under present Canadian federal income tax law, an employee who exercises a share option is deemed to have received an employment benefit equal to the excess of the market price of the shares at the time he acquires them over the option price, and such benefit is taxable in the year in which he acquires the shares. However, the employee may effectively include the amount of such employment benefit in his income over a number of years through purchase of an income-averaging annuity contract. Neither the Company nor any subsidiary will receive any deduction from income in connection with the grant or exercise of share options.

Under present United States federal income tax law, an employee who exercises a share option would realize ordinary taxable income equal to the excess of the market value of the shares over their option price; and, if the employee exercising the option were employed by a United States subsidiary, it would ordinarily be entitled to a deduction for tax purposes to the extent of such taxable income of the optionee; but, if the employee exercising the option were employed by the Company or a non-United States subsidiary, it might not receive any tax deduction.

The Company understands that the receipt by an employee of a share appreciation right in conjunction with an option (whether granted concurrently with or after the grant of the option) will not be subject to tax at the time of receipt under either Canadian or United States federal income tax law. However, shares or cash delivered upon the exercise of share appreciation rights will be treated as compensation taxable to the employee, and the employer company will be entitled to a deduction in the amount that taxable compensation is realized by the employee, except that under Canadian federal income tax law no deduction will be allowed to the extent that such compensation is in the form of shares. For the foregoing purposes, shares so acquired will be taken at their market value on the date they are acquired by the employee.

It is not practicable to describe all the possible tax consequences to the Company and its subsidiaries and to the recipients of grants of share options or share appreciation rights or awards of incentive compensation under the laws of the many countries, having income taxes, in which the Company and its subsidiaries are or may be incorporated or operating or to which recipients may be subject. The range of possible tax consequences includes immediate or deferred liability of the recipient for income taxes at the full rate for ordinary income or at some lesser capital gain or other rate on all or part of any benefit which the recipient may have or be deemed to have received, and as far as the Company and its subsidiaries are concerned they might receive no tax deductions or immediate or deferred deductions equal to part or all of the amount of the benefit received or deemed to have been received by the recipient resulting from the granting or exercise of the share option or share appreciation right or from the making or delivery or payment of the award of incentive compensation or the termination of restrictions thereon.

General

The 1979 Plan provides that it shall be administered by a Committee of three or more Directors who are not eligible to participate under the Plan. As discussed on page 9, the Salary and Incentive Plan Committee of the Board will administer the Plan. Share options and share appreciation rights may be granted and incentive compensation awarded only as and if recommended and determined by the Committee. No options, share appreciation rights or awards of incentive compensation will be granted or made under the Plan prior to Shareholder approval of the Plan. It is not possible to determine at this time which of the present employees of the Company and its subsidiaries might be permitted to participate or the extent of their participation. If the 1979 Plan had first been in effect for the year 1978, the "Incentive Fund" for that year would have been $1,649,000.

The Board may amend the Plan without Shareholder approval, provided that the amendment does not increase the number of shares which may be optioned or otherwise materially increase the cost of the Plan. The Board may suspend or terminate the Plan at any time.

The Board considers it appropriate to submit the 1979 Plan for approval by the Shareholders, and it will not be put into effect unless it is approved by the favourable vote of the holders of a majority of the shares represented and entitled to be voted at the meeting.

The Board believes that the Company will benefit substantially by the 1979 Key Employees Incentive Plan and recommends it to the Shareholders for their approval, and the persons named in the accompanying form of proxy intend to vote the proxy for the approval

of the 1979 Plan unless the Shareholder signing such form of proxy specifies that it be voted against the approval of the 1979 Plan.

Appointment of Auditors

Price Waterhouse & Co. served as Auditors of the Company's predecessor companies from 1902 until 1928. The Shareholders of the Company first appointed that firm to the office of Auditors of the Company at the Annual Meeting held March 19, 1929 and have reappointed that firm in each ensuing year.

Price Waterhouse & Co. receives an audit fee for performing the examination of the Company's annual consolidated financial statements in accordance with generally accepted auditing standards and other audit functions (including reviews of quarterly financial statements and filings with regulatory authorities). In addition, Price Waterhouse & Co. performs other non-auditing professional services for the Company as requested. During the year 1978, such non-auditing services (and the respective percentage relationships of fees to the basic audit fee) consisted of services relating to a costing and management information system (5%); audits of employee benefit plans (4%); individual tax return services for certain executives and expatriate employees (4%); other tax services such as tax planning and assistance in tax examinations and tax litigation (9%); and other services (3%). Total fees for non-auditing services amounted to 25% of the basic audit fee in 1978. All services rendered by Price Waterhouse & Co. are approved by the Audit Committee, which also considers the effect that such services may have on the Auditors' independence, and whenever practical this approval is obtained prior to rendering of the service.

The persons named in the accompanying form of proxy intend to vote the proxy in favour of the appointment of Price Waterhouse & Co. to the office of Auditors of the Company for the term expiring with the Annual Meeting in 1980 at a remuneration to be approved by the Board of Directors, unless the Shareholder signing such form of proxy specifies that it be voted against such appointment or be withheld from voting.

It is intended that Price Waterhouse & Co. will make an audit of the scope customarily made by them on behalf of the Company, as indicated in their report to Shareholders dated February 15, 1979, set forth on page 22 of the 1978 Annual Report of the Company.

Representatives of Price Waterhouse & Co. are expected to be present at the meeting with the opportunity to make a statement if they desire to do so and to respond to any appropriate questions.

Any Other Matters Which May Come Before the Meeting

The accompanying form of proxy will confer discretionary authority upon the persons named therein with respect to any amendments or variations to the matters set forth in the Notice of Meeting and with respect to any other matters that may properly come before the meeting.

The Management is not aware that any matters are to be presented for action at the meeting other than those specifically referred to in the Notice of Meeting. However, if any other matters properly come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote on such matters in accordance with their judgment.

On any ballot that may be called for at the meeting, all shares in respect of which the persons named in the accompanying form of proxy have been appointed to act will be voted or withheld from voting in accordance with the specification of the Shareholder signing the proxy. If no such specification is made, then the shares will be voted as stated above.

The Company will bear the cost of solicitation of proxies. Solicitation will be by mail, possibly supplemented by telephone or other personal contact by regular employees of the Company.

February 20, 1979

The Board of Directors of the Company has approved in substance the material contained in this Information Circular and Proxy Statement and also its mailing to Shareholders.

Vice-President, General Counsel & Secretary

EXHIBIT A

SPECIAL RESOLUTION AUTHORIZING THE BOARD OF DIRECTORS OF INCO LIMITED TO APPLY TO THE DIRECTOR UNDER THE CANADA BUSINESS CORPORATIONS ACT FOR A CERTIFICATE OF CONTINUANCE

RESOLVED THAT:

1. The Directors of the Company be and they are hereby authorized to apply under Section 181 of the Canada Business Corporations Act to the Director under the Act for a certificate of continuance continuing the Company as if it had been incorporated under the Act.

2. The provisions of the letters patent and supplementary letters patent of the Company be repealed in their entirety and the provisions of the following form of articles of continuance be substituted therefor.

3. The Directors and Officers of the Company be and they are hereby authorized and directed to execute all such documents and do all such other things as they deem necessary or desirable to carry out the foregoing.

ARTICLES OF CONTINUANCE

1. Name of corporation (the "Company"):

INCO LIMITED (English form)
INCO LIMITÉE (French form).

2. The place in Canada where the registered office is to be situated:

City of Toronto,
Province of Ontario.

3. The classes and any maximum number of shares that the Company is authorized to issue:

The following Schedule is incorporated in these Articles.

4. Restrictions, if any, on share transfers:

None.

5. Number (or minimum and maximum number) of Directors:

The number of Directors of the Company shall be a minimum of 12 and a maximum of 25, and the number within such range shall be determined from time to time by the Board of Directors.

6. Restrictions, if any, on businesses the Company may carry on:

None.

7. If change of name effected, previous name:

No change of name effected other than the addition of a French-language version of the name.

8. Other provisions, if any:

Without limit to the powers of the Board of Directors as provided in the Canada Business Corporations Act, the Board of Directors may from time to time on behalf of the Company:

(a) borrow money upon the credit of the Company;

(b) issue, reissue, sell or pledge debt obligations of the Company;

(c) to the extent permitted by the Canada Business Corporations Act, give a guarantee on behalf of the Company to secure performance of an obligation of any person or give, directly or indirectly, financial assistance to any person on behalf of the Company by means of a loan, guarantee or otherwise;

(d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Company, owned or subsequently acquired, to secure any obligation of the Company; and

(e) delegate to one or more Directors or Officers all or any of the powers conferred by the foregoing provisions to such extent and in such manner as the Board of Directors shall determine at the time of each such delegation.

For the convenience of shareholders, dividends or other distributions that are payable in cash may be paid to certain shareholders in Canadian currency and to other shareholders in currencies other than Canadian currency, and, in this regard, the Board of Directors may declare dividends or other distributions in a particular currency and make whatever provision it deems advisable for the payment of such dividends or other distributions in equivalent amounts in a currency or currencies other than the currency in which such dividends or other distributions are declared.

SCHEDULE TO ARTICLES OF CONTINUANCE

The share capital of the Company shall consist of:

(a) an unlimited number of Common Shares; and

(b) thirty million (30,000,000) Preferred Shares issuable in series with the issue price per share of the shares of each series to be fixed by the Board of Directors, which issue price shall not be less than one dollar ($1.00) per share, or its equivalent in a foreign currency at the date of issuance, or more than one hundred dollars ($100.00) per share, or its equivalent in a foreign currency at the date of issuance, provided that the aggregate issue price of the Preferred Shares shall not exceed seven hundred and fifty million dollars ($750,000,000), and, for purposes of such aggregate issue price, the issue price per share of the

shares of each series having an issue price stated in a foreign currency shall be translated into Canadian currency at the respective rates of exchange in effect when issued.

Common Shares

The Board of Directors may (but need not) determine at any time or from time to time, with respect to any cash dividend declared payable on the Common Shares, that the holders of the shares of such class, or the holders of shares of such class whose addresses, on the books of the Company, are in Canada and/or in specified jurisdictions outside Canada, shall have the right to elect to receive such dividend in the form of a stock dividend payable in Common Shares having a value, as determined by the Board of Directors, that is substantially equivalent, as of a date or a period of days determined by the Board of Directors, to the cash amount of such dividend, provided that the Board of Directors may (but need not) value the shares to be issued by way of stock dividend at a discount from the relevant market value thereof of up to five per cent (5%), and provided further that shareholders shall receive cash in lieu of any fractional interests in shares to which they would otherwise be entitled unless the Board of Directors shall otherwise determine. If the Board of Directors shall determine that shareholders are entitled to fractional interests in shares issued by way of stock dividend, shareholders shall be entitled to receive dividends in respect of such fractional share interests.

Preferred Shares

Part I

The Preferred Shares shall, as a class, carry and be subject to the following rights, privileges, restrictions and conditions:

(a) the Preferred Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Preferred Shares as shall, before the issuance thereof, be determined by resolution of the Board of Directors; each series of the Preferred Shares shall be appropriately designated by some distinguishing number, letter or title;

(b) with respect to each series, the Board of Directors shall fix (subject to the provisions of this Part I), by resolution passed before the issuance of the Preferred Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Preferred Shares of such series, including, but without in any way limiting the generality of the foregoing, (i) the issue price per share of the shares of such series, which may (but need not) be expressed in a foreign currency, (ii) the rate, amount or method of calculation of dividends and whether such rate, amount or method shall be subject to change or adjustment in the future, (iii) whether such dividends shall be cumulative, non-cumulative or partially cumulative, (iv) the date or dates, manner and currency or currencies of payment of such dividends, (v) the date or dates from which such dividends shall accrue, (vi) the restrictions, if any, respecting the payment of dividends on any Junior Shares (as hereinafter defined), (vii) the rights and obligations, if any, of the Company to purchase Preferred Shares of such series or to redeem the same and the prices and the other terms and conditions of any such purchase or redemption, (viii) the terms and conditions of any share purchase plan or sinking fund or similar fund providing for the purchase or redemption of Pre-

ferred Shares of such series, (ix) the rights of retraction, if any, vested in the holders of Preferred Shares of such series, and the prices and the other terms and conditions of any rights of retraction, and whether any additional rights of retraction may be vested in such holders in the future, (x) the rights of conversion and/or exchange, if any, of Preferred Shares of such series, and the rates and the other terms and conditions of any such rights, (xi) the voting rights, if any, attached to the Preferred Shares of such series in addition to the voting rights of the holders of the Preferred Shares as a class as referred to in clauses (g) and (h) of this Part I, and (xii) the amounts of the preferences over the Junior Shares with respect to the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs; "Junior Shares" means the Common Shares and any other shares of the Company ranking junior to the Preferred Shares with respect to the payment of dividends and with respect to the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs;

(c) the Preferred Shares of each series shall be entitled to preferences (as set forth in the provisions attaching to such series) over the Junior Shares with respect to priority in the payment of dividends and with respect to priority in the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs; provided that, subject to clause (d) of this Part I, the Preferred Shares of each series may be given such other preferences over the Junior Shares as may be fixed by the Board of Directors as to the respective series authorized to be issued;

(d) the Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs;

(e) the holders of the Preferred Shares shall not be entitled as such to subscribe for, purchase or receive any part of any issue of shares, bonds, debentures or other securities of the Company now or hereafter authorized, or any rights to acquire the same, otherwise than in accordance with the conversion, exchange or other rights, if any, which may from time to time be attached to any series of the Preferred Shares;

(f) so long as any of the Preferred Shares are outstanding, the Company shall not, without prior approval by a majority of the votes cast at a meeting of the holders of the Preferred Shares conducted in accordance with

clause (i) of this Part I, issue any additional series of the Preferred Shares or create or issue any shares ranking prior to or on a parity with the Preferred Shares with respect to the payment of dividends or the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs; provided that, subject to applicable law, the Company may at any time or from time to time, without such approval, (w) create additional Preferred Shares, (x) create one or more other classes of shares ranking on a parity with the Preferred Shares with respect to the payment of dividends and/or the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, (y) increase any maximum number of authorized shares of any one or more of such other classes of shares, and (z) if all dividends on each outstanding series of Preferred Shares accrued to the most recently preceding date for the payment of dividends on such series shall have been declared and paid or set apart for payment, issue one or more additional series of the Preferred Shares or issue any one or more of such other classes of shares or any one or more series thereof;

(g) except as referred to in clause (h) of this Part I or as required by law, the holders of the Preferred Shares as a class shall have no voting rights;

(h) the provisions attaching to the Preferred Shares as a class may be amended or repealed at any time or from time to time with such approval as may then be required by law to be given by the holders of the Preferred Shares as a class;

(i) on any poll taken at any meeting of the holders of the Preferred Shares as a class, or at any joint meeting of the holders of two (2) or more series of the Preferred Shares, each holder of Preferred Shares entitled to vote thereat shall have one one-hundredth (1/100) of a vote in respect of each dollar ($1.00) (or its equivalent in a foreign currency at the date of issuance) of the issue price of each share held, and the formalities to be observed with respect to the giving of notice of and voting at any such meeting (including, without in any way limiting the generality of the foregoing, the record dates for the giving of notice and the entitlement to vote), the quorum therefor and the conduct thereof shall *mutatis mutandis* be those from time to time prescribed by the by-laws of the Company or standing resolutions of the Board of Directors with respect to meetings of shareholders; and

(j) neither an amalgamation, arrangement, compromise or reorganization, nor the sale, lease or exchange of all or substantially all of the assets of the Company, shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Part I.

Part II

Ten million (10,000,000) of the Preferred Shares shall form the initial series of the Preferred Shares and be designated as the Floating Rate Preferred Shares Series A, and shall

have the following rights, privileges, restrictions, conditions and other provisions attached thereto in addition to the rights, privileges, restrictions and conditions attached to the Preferred Shares as a class:

(a) Issue Price

The issue price of the initial series of the Preferred Shares (the "Series A Preferred Shares") shall be twenty-five dollars ($25.00) per share.

(b) Dividends

The holders of the Series A Preferred Shares shall be entitled to receive, and the Company shall pay thereon, as and when declared by the Board of Directors out of the moneys of the Company properly applicable to the payment of dividends, cumulative preferential cash dividends, at the rate hereinafter provided for. Dividends on the Series A Preferred Shares shall accrue on a day-to-day basis from the date of issue thereof. Such accrued dividends shall be payable quarterly on the first (1st) days of March, June, September and December in each year (the "Dividend Payment Dates"), and the first Dividend Payment Date shall be the first (1st) day of June, 1977.

Except as hereafter in this Part II otherwise provided, the rate (applied to the issue price of the Series A Preferred Shares and expressed on a per annum basis) of the dividend payable on each Dividend Payment Date shall be equal to the sum of (i) one-half (½) of the Prime Rate (as hereinafter defined) for the period that (x) commenced on the first (1st) day of the sixth (6th) calendar month preceding the month in which the particular Dividend Payment Date falls and (y) terminated on the sixteenth (16th) day prior to the first (1st) day of the third (3rd) calendar month preceding the month in which the particular Dividend Payment Date falls, and (ii) one and one-quarter per cent (1¼%). Accrued dividends shall be calculated on the basis of a three hundred and sixty-five (365) day or three hundred and sixty-six (366) day year, as the case may be, for the actual number of days elapsed. With respect to each Dividend Payment Date other than the first Dividend Payment Date (so long as the rate continues to be a floating dividend rate of the nature herein provided for), the Company shall complete the calculation of the rate per annum of the dividend payable on such Dividend Payment Date and shall use its best efforts to mail particulars in reasonable detail of such calculation to each holder of Series A Preferred Shares, in accordance with clause (j) of this Part II, on or prior to the immediately preceding Dividend Payment Date.

The "Prime Rate" for any period shall mean the per annum rate determined by (i) ascertaining, for each day of such period, the arithmetic mean (the "Daily Mean"), rounded to the nearest one-hundredth of one per cent (0.01%), of the interest rates stated by the Banks (as hereinafter defined) as being charged by them on that day for demand loans made in Canadian currency to their most credit-worthy domestic commercial customers, and (ii) calculating the arithmetic mean, rounded to the nearest one-hundredth of one per cent (0.01%), of such Daily Means. The "Banks" shall mean Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, The Royal Bank of Canada, and The Toronto-Dominion Bank, or their successors.

Notwithstanding the foregoing, the Board of Directors may (but need not) from time to time, without the approval of the holders of the Series A Preferred Shares, change, in any amount or manner, the dividend rate applicable to the Series A Preferred Shares (including, without

limiting the generality of the foregoing, a change in the basis of determining such rate and a change of such rate from a floating rate to a fixed rate or vice versa), such change or changes to become effective with respect to dividends on the Series A Preferred Shares commencing with the dividend payable on the Dividend Payment Date next following any Dividend Payment Date specified as the date for the purchase by the Company of Series A Preferred Shares duly tendered pursuant to the Initial Retraction Privilege or any Additional Retraction Privilege (as such terms are hereinafter defined) provided for in clause (c) of this Part II; provided that any such change shall become effective only if:

(i) the Company duly invites the holders of the Series A Preferred Shares to tender their shares for purchase by the Company pursuant to the terms of the relevant retraction privilege and, at the time of making such invitation, gives notice to the holders of the Series A Preferred Shares of its intention to make such change and of the particulars of such change; and

(ii) the Company takes up and pays for, on or before the date specified for purchase by it of Series A Preferred Shares pursuant to the terms of the relevant retraction privilege, all the Series A Preferred Shares duly tendered pursuant to such retraction privilege;

and provided further that the Series A Preferred Shares shall continue (together with the shares of any other series of the Preferred Shares) to have a preference with respect to priority in the payment of dividends over the Junior Shares. "Junior Shares" means the Common Shares of the Company and any other shares of the Company ranking junior to the Preferred Shares in respect of the payment of dividends and in respect of the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs.

Payment of the dividend on the Series A Preferred Shares payable on any Dividend Payment Date (less any tax required to be deducted) shall be made by cheque of the Company, dated the day on which the dividend is payable, payable in lawful money of Canada at par at any branch in Canada of the Company's bankers. The mailing from the Company's principal office in Canada on or before the day preceding any Dividend Payment Date of such a cheque to a holder of Series A Preferred Shares shall satisfy the dividend represented thereby and payable on such Dividend Payment Date unless the cheque is not paid upon presentation. A dividend that is represented by a cheque which has not been presented to the Company's bankers for payment or that otherwise remains unclaimed for a period of six (6) years from the date on which it was declared to be payable shall be forfeited to the Company.

If on any Dividend Payment Date the dividends accrued to such date are not paid in full on all of the Series A Preferred Shares then outstanding, such dividends, or the unpaid portions thereof, shall be paid on a subsequent date or dates as and when declared by the Board of Directors out of the moneys of the Company properly applicable to the payment of dividends. The holders of the Series A Preferred Shares shall not be entitled to any dividends other than or in excess of the cumulative preferential cash dividends hereinbefore provided for.

(c) Retraction Privilege

A retraction privilege in this Part II means an

obligation upon the Company to make an invitation, on a date (the "Invitation Date") hereinafter specified or provided for, for tenders from the holders of the Series A Preferred Shares for the purchase by the Company, on a date (the "Purchase Date") hereinafter specified or provided for, of all such shares held by such holders at a price (the "Purchase Price") of twenty-five dollars ($25.00) per share plus an amount equal to all dividends accrued and unpaid thereon to and including the applicable Purchase Date, and to accept and purchase the shares duly tendered, subject to the following provisions.

In order to accept the Company's invitation for tenders, a holder of Series A Preferred Shares must, on or before the first (1st) day of the first (1st) calendar month preceding the month in which the Purchase Date falls, deposit with the Company, at such place or places as shall be specified in the invitation for tenders, the certificate(s) representing such shares as he wishes to tender. Such deposit shall be irrevocable unless payment of the Purchase Price shall not be duly made by the Company to the holder on or before the Purchase Date. Subject as hereinafter provided, the Company shall accept and purchase all of the Series A Preferred Shares so tendered. Upon payment by the Company of the Purchase Price of the Series A Preferred Shares tendered by any holder, such holder shall cease to be entitled to dividends or any other participation in the assets of the Company and shall not be entitled to exercise any of the other rights of a holder of Series A Preferred Shares. Notwithstanding the foregoing, the Company shall only be obligated to purchase Series A Preferred Shares to the extent that such purchase of Series A Preferred Shares would not be contrary to insolvency provisions or other provisions of applicable law or to the provisions of clause (h) of this Part II. If at the Invitation Date the Company believes that it would not be permitted by any of such provisions to purchase all of the Series A Preferred Shares, the Company shall include in such invitation notice of the maximum number of shares which it then believes it will be permitted to purchase if tendered, provided that if the Company has acted in good faith the Company shall have no liability in the event that such belief proves inaccurate. If such purchase of all or any portion of the Series A Preferred Shares would be contrary to insolvency provisions or other provisions of applicable law or to the provisions of clause (h) of this Part II, the Company shall only be obligated to purchase Series A Preferred Shares to the extent of the maximum amount that may be so applied (rounded to the next lower multiple of one hundred thousand dollars ($100,000.00)) as would not be contrary to such provisions. In such case the Company shall pay to each holder of tendered Series A Preferred Shares his pro rata share of the purchase moneys available as aforesaid and shall issue and deliver to him a new share certificate, at the expense of the Company, representing the Series A Preferred Shares not purchased by the Company. If a holder of Series A Preferred Shares wishes to tender only a part of the shares represented by any certificate, the holder may deposit the certificate representing such shares and at the same time advise the Company in writing as to the number of Series A Preferred Shares with respect to which his tender is being made, and, if he does so, the Company shall issue and deliver to such holder, at the expense of the Company, a new share certificate representing the Series A Preferred Shares which are not being tendered. If the Company has determined that, at the time of making an invitation for tenders hereunder, any part of the Purchase Price to be paid by the Company in respect of any Series A Preferred

Shares tendered which constitutes a repayment of paid-up capital may be deemed for the purposes of the Income Tax Act (Canada) to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Company being less than the paid-up capital in respect of those shares to be purchased, the Company shall so indicate in its invitation for tenders and shall describe the circumstance in which such deemed dividend would occur.

The following retraction privilege or privileges are applicable to the Series A Preferred Shares:

(i) The holders of the Series A Preferred Shares shall be entitled to a retraction privilege (the "Initial Retraction Privilege") for which the Invitation Date shall be some time during the month of December, 1986 and the Purchase Date shall be the first (1st) day of March, 1987.

(ii) The Company may (but need not) elect from time to time to establish one or more additional retraction privileges (an "Additional Retraction Privilege") for the holders of the Series A Preferred Shares, the Purchase Date for each of which shall be a Dividend Payment Date subsequent to the first (1st) day of March, 1987, as specified by the Company in the notice referred to below, and the Invitation Date for each of which shall be a date, determined by the Company, not less than sixty (60) days and not more than ninety (90) days prior to the Purchase Date. Any additional Retraction Privilege shall be effective only if the Company gives to the holders of the Series A Preferred Shares, on the Invitation Date for the next preceding retraction privilege, whether the Initial Retraction Privilege or an earlier Additional Retraction Privilege, notice that the Company has elected to establish such Additional Retraction Privilege and the notice contains particulars of the privilege.

(iii) If the Company fails to purchase all of the Series A Preferred Shares duly tendered in accordance with the Initial Retraction Privilege, any Additional Retraction Privilege, or any retraction privilege provided for in this paragraph (iii), the holders of the Series A Preferred Shares shall be entitled to a further retraction privilege for which (x) the Invitation Date shall be such date after the time that the Company is no longer prevented, by insolvency provisions or other provisions of applicable law or the provisions of clause (h) of this Part II, from purchasing the lesser of (i) the Series A Preferred Shares then outstanding, or (ii) one hundred and twenty thousand (120,000) Series A Preferred Shares, as it is reasonably feasible for the Company to make an invitation for tenders in this regard, and (y) the Purchase Date shall be the first Dividend Payment Date which is not less than eighty (80) days after the Invitation Date.

(d) Redemption

The Company may not redeem the Series A Preferred Shares, or any of them, before the first (1st) day of March, 1980. In addition, the Company may not redeem the Series A Preferred Shares, or any of them, at any time if any part of the Redemption Price (as hereinafter defined) which constitutes a repayment of paid-up capital would for the purposes of the Income Tax Act (Canada) be deemed to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Company being less than the paid-up capital in respect

of those shares so to be redeemed. Subject to the foregoing and to the provisions of clause (h) of this Part II, the Company, upon giving notice as hereinafter provided, may redeem the whole, or from time to time any part, of the outstanding Series A Preferred Shares upon payment for each share to be redeemed of the price (the "Redemption Price") hereinafter set forth. The Redemption Price shall be the applicable amount set forth below together in each case with an amount equal to all dividends accrued and unpaid to the redemption date on the Series A Preferred Shares to be redeemed:

If redeemed in the 12-month period ending March 1	
1981	$25.7500
1982	25.5625
1983	25.3750
1984	25.1875
1985 and thereafter	25.0000.

The Company shall give to each holder of Series A Preferred Shares to be redeemed at least one hundred and eighty (180) days' notice of the intention of the Company to redeem such shares. Such notice shall set out the Redemption Price (other than the amount of any dividends forming part of the Redemption Price) and, if less than all the outstanding Series A Preferred Shares are to be redeemed, the number of Series A Preferred Shares held by the holder to whom such notice is addressed which are to be redeemed. Such notice shall also set out the date on which the redemption is to take place, and on and after the redemption date so specified the Company shall pay or cause to be paid to each of the holders of the Series A Preferred Shares to be redeemed the Redemption Price of such shares upon presentation and surrender, at the place or places within Canada designated by such notice, of the certificate or certificates for the Series A Preferred Shares so called for redemption. From and after the redemption date, the Series A Preferred Shares called for redemption shall cease to be entitled to dividends or any other participation in the assets of the Company and the holders thereof shall not be entitled to exercise any of the other rights of shareholders in respect thereof unless payment of the Redemption Price shall not be duly made by the Company upon presentation and surrender of the certificates in accordance with the foregoing provisions. The Company may include in such notice a statement that the moneys required for the payment of the Redemption Price have been deposited or will be deposited on or before the opening of business on the redemption date or a specified date prior to such date with a specified chartered bank or a specified trust company in Canada in trust for the respective holders of such shares to be paid to them respectively upon surrender to such bank or trust company of the certificate or certificates representing the same, or that the Company has set aside such moneys or will set aside such moneys on or before the opening of business on the redemption date or a specified date prior to such date in trust for the respective holders of such shares to be paid to them respectively upon surrender to the Company of the certificate or certificates representing the same, and upon (i) the giving of such notice and (ii) such deposit being made or such moneys being set aside, whichever is the later, such shares shall be deemed to be redeemed and all rights of the holders of such shares as against the Company shall be limited to receiving the amount so deposited or set aside without interest, and such holders shall cease to be entitled to dividends or any other participation in the assets of the Company and

shall not be entitled to exercise any other rights as holders of the Series A Preferred Shares so redeemed. In case a part only of the Series A Preferred Shares are to be redeemed, the shares to be redeemed may be selected by lot (in single shares or in units of ten (10) shares or less), or redemption may be effected on a pro rata basis disregarding fractions, as the Board of Directors in its sole discretion shall determine. If a part only of the Series A Preferred Shares represented by any certificate shall be redeemed, the Company shall issue and deliver to the holder, at the expense of the Company, a new share certificate representing the balance not redeemed.

(e) Purchase

Subject to the provisions of clause (h) of this Part II, the Company may at any time or from time to time purchase (if obtainable) the whole or any part of the Series A Preferred Shares in the market (including, but without limiting the generality of the foregoing, the purchase through or from an investment dealer or a firm holding membership on a recognized stock exchange), or by invitation for tenders addressed to all of the holders of Series A Preferred Shares, at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable, but not exceeding twenty-six dollars ($26.00) per share, if such purchase is made before the first (1st) day of March, 1980, and, if such purchase is made on or after that date, not exceeding the Redemption Price at which, on the date of purchase, such shares are redeemable as provided for in clause (d) of this Part II, together in each case with the costs of purchase. If, upon any invitation for tenders under the provisions of this paragraph, more Series A Preferred Shares are tendered at a price or prices acceptable to the Company than the Company is willing to purchase, the Series A Preferrec Shares to be purchased by the Company shal be purchased as nearly as may be pro rata to the number of shares tendered by each holder who submits a tender to the Company provided that, when shares are tendered a different prices, the prorating shall be effectec with respect to the shares tendered at the price level at which more shares were tendered thar the Company is willing to purchase after the Company has purchased all the shares tendered at lower price levels.

(f) Voting Rights

Except as required by law, the holders of the Series A Preferred Shares shall not be entitlec as such to receive notice of or to attend or to vote at any meeting of shareholders of the Company unless and until six (6) quarterl dividends on the Series A Preferred Share shall be in arrears, whether or not such dividends are consecutive and whether or not suc dividends have been declared and whether o not there are any moneys of the Compan properly applicable to the payment of dividends. In each such event, but only so lon as any dividends on the Series A Preferrec Shares remain in arrears, the holders of the Series A Preferred Shares shall be entitled t receive notice of and to attend each meeting of shareholders of the Company at which members of the Board of Directors are to be electe and which takes place more than sixty (60 days after such event (other than a separat meeting of the holders of another series o class of shares), and shall be entitled to elec at such meeting, voting separately as a series two (2) members out of whatever number o members of the Board of Directors are to b elected at such meeting in accordance wit the by-laws of the Company, provided that (i if, under the provisions attaching to one o

more other series of Preferred Shares, the holders of such other series are entitled, by reason of a failure to pay dividends or of some other event, to elect at any such meeting two (2) members of the Board of Directors in conjunction with the holders of the Series A Preferred Shares, the holders of the Series A Preferred Shares shall exercise their election right in conjunction with the holders of such other series so that the holders of the Series A Preferred Shares and of such other series shall vote together for the election of the same two (2) members of the Board of Directors, and (ii) the election right of the holders of the Series A Preferred Shares shall not apply at any such meeting if or to the extent that two (2) members of the Board of Directors whose terms of office do not expire at the meeting have been previously elected to the Board of Directors by the holders of the Series A Preferred Shares voting separately or in conjunction with the holders of any such other series of shares as aforesaid, or by the holders of any such other series. Notwithstanding the foregoing, nothing contained in this clause (f) shall be deemed to limit the right of the Company from time to time to increase or decrease the size of its Board of Directors.

(g) Financial Statements

So long as any of the Series A Preferred Shares are outstanding, the Company shall send to the holders of the Series A Preferred Shares, at the time of distribution to the other shareholders of the Company, copies of the Company's annual audited financial statements and of all unaudited financial statements distributed to such other shareholders.

(h) Restrictions on Dividends and Retirement of Shares

So long as any of the Series A Preferred Shares are outstanding, the Company shall not at any time:

(i) declare, pay or set apart for payment any dividends (other than stock dividends payable in Junior Shares) on any Junior Shares,

(ii) call for redemption, purchase or otherwise retire for value any Junior Shares, or

(iii) call for redemption, purchase or otherwise retire for value (x) less than all of the Series A Preferred Shares or (y) any other Preferred Shares or (z) any other shares of the Company ranking prior to or on a parity with the Series A Preferred Shares in respect of the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs,

unless, in each such case, all dividends accrued on the outstanding Series A Preferred Shares and on all other shares of the Company ranking prior to or on a parity with the Series A Preferred Shares in respect of the payment of dividends to the most recently preceding respective date or dates for the payment of dividends thereon shall have been paid or set apart for payment.

(i) Liquidation, Dissolution or Winding Up

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Series A Preferred Shares shall be entitled to receive the sum of twenty-five dollars ($25.00) per share, together

with an amount equal to all accrued and unpaid dividends thereon, and, if such liquidation, dissolution, winding up or other distribution be voluntary, the holders of the Series A Preferred Shares shall, in addition, be entitled to receive a premium of one dollar ($1.00) per share if such event commences prior to the first (1st) day of March, 1980 or, if such event commences on or after that date, a premium equivalent to the premium which would be payable as part of the Redemption Price if such shares were to be redeemed in accordance with clause (d) of this Part II on the date of commencement of any such liquidation, dissolution, winding up or other distribution, the whole before any amount shall be paid by the Company or any assets of the Company shall be distributed to holders of Junior Shares. After payment to the holders of the Series A Preferred Shares of the amount so payable to them, they shall not be entitled to share in any further distribution of assets of the Company.

(j) Notices

Any notice, cheque, invitation for tenders or other communication from the Company provided for in this Part II shall be sent to the holders of the Series A Preferred Shares by ordinary unregistered mail, postage prepaid, at their respective addresses appearing on the books of the Company or, in the event of the address of any such holder not so appearing, then at the last known address of such holder. Accidental failure to give any such notice, invitation for tenders or other communication to one or more holders of the Series A Preferred Shares shall not affect the validity thereof, but, upon such failure being discovered, the notice, invitation for tenders or other communication, as the case may be, shall be sent forthwith to such holder or holders and shall have the same effect as if given in due time.

(k) Interpretation

In the event that any date on which any dividend on the Series A Preferred Shares is payable by the Company, or on or by which any other action is required to be taken by the Company under this Part II, is not a business day (as hereinafter defined), then such dividend shall be payable, or such other action shall be required to be taken, on or by the next succeeding date that is a business day. A "business day" shall be a day other than a Saturday, a Sunday or any other day that is treated as a holiday at the Company's principal office in Canada.

(l) Amendments

Subject to compliance with applicable law, the rights, privileges, restrictions, conditions and other provisions attaching to the Series A Preferred Shares may be amended or repealed by the Company, but only with the approval of the holders of the Series A Preferred Shares as provided in clause (m) of this Part II, provided however that no such amendment or repeal shall be made without approval by at least a majority of the votes cast at a meeting of the holders of the Series A Preferred Shares duly called for that purpose.

(m) Approval of Holders of Series A Preferred Shares

Any approval to be given by the holders of the Series A Preferred Shares shall be deemed to have been sufficiently given if given by such holders as provided in clause (h) of the provisions attaching to the Preferred Shares as a class (Part I above), which provisions shall apply *mutatis mutandis* as though the term "Series A Preferred Shares" were used in such clause in place of the term "Preferred Shares", and the formalities to be observed with respect to the giving of notice of and voting

at any meeting of the holders of the Series A Preferred Shares for the purpose of obtaining such approval (including, without in any way limiting the generality of the foregoing, the record dates for the giving of notice and the entitlement to vote), the quorum therefor and the conduct thereof shall *mutatis mutandis* be those from time to time prescribed by the by-laws of the Company or standing resolutions of the Board of Directors with respect to meetings of shareholders.

Part III

Five million, two hundred thousand (5,200,000) of the Preferred Shares shall form the second series of the Preferred Shares and be designated as the 7.85% Preferred Shares Series B (the "Series B Preferred Shares"), provided that two hundred thousand (200,000) of the Series B Preferred Shares shall be issued only by way of stock dividend and provided further that, in the event the Board of Directors determines at any time pursuant to the second paragraph of clause (b) of this Part III that some or all of the holders of the Series B Preferred Shares shall have the right to elect to receive a dividend in the form of a stock dividend payable in Series B Preferred Shares, the number of Preferred Shares forming such series may be increased by the Board of Directors without the approval of the holders of the Series B Preferred Shares, the additional number of Preferred Shares not to exceed eight hundred thousand (800,000) Preferred Shares in the aggregate and to be issued only by way of stock dividend, and such increase in the number of Preferred Shares forming such series to be effective only upon the issue of a certificate with respect to articles of amendment providing for the increase. The Series B Preferred Shares shall have the following rights, privileges, restrictions, conditions and other provisions attached thereto in addition to the rights, privileges, restrictions and conditions attached to the Preferred Shares as a class:

(a) Issue Price

The issue price of the Series B Preferred Shares shall be twenty-five dollars ($25.00) per share, provided that, if the per-share value determined by the Board of Directors of any Series B Preferred Shares issued by way of stock dividend pursuant to the second paragraph of clause (b) of this Part III is other than twenty-five dollars ($25.00), such shares may, in the discretion of the Board of Directors, be issued at such value.

(b) Dividends

The holders of the Series B Preferred Shares shall be entitled to receive, and the Company shall pay thereon, as and when declared by the Board of Directors out of the moneys of the Company properly applicable to the payment of dividends, fixed cumulative preferential cash dividends at the rate of seven and eighty-five one-hundredths per cent (7.85%) per annum on the amount of twenty-five dollars ($25.00) per share. Dividends on the Series B Preferred Shares shall accrue from the date of issue thereof and shall be payable quarterly on the first (1st) days of March, June, September and December in each year (the "Dividend Payment Dates"), and the first Dividend Payment Date shall be the first (1st) day of March, 1978. In the event that dividends are required to be calculated hereunder for a period of time less than the period between two Dividend Payment Dates, such dividends shall be calculated as if such dividends were accruing on a day-to-day basis, on the basis of a three hundred and sixty-five (365) day year, for the actual number of days elapsed.

Notwithstanding the foregoing, the Board of Directors may (but need not) determine at any time or from time to time, with respect to any dividend payable on the Series B Preferred Shares, that the holders of the Series B Preferred Shares, or the holders of Series B Preferred Shares whose addresses, on the books of the Company, are in Canada and/or in specified jurisdictions outside Canada, shall have the right to elect to receive such dividend in the form of a stock dividend payable in shares of any class or series of shares of the Company specified by the Board of Directors and having a value, as determined by the Board of Directors, that is substantially equivalent, as of a date or a period of days determined by the Board of Directors, to the cash amount of such dividend, provided that shareholders shall receive cash in lieu of any fractional interests in shares to which they would otherwise be entitled hereunder unless the Board of Directors shall otherwise determine.

Subject to the foregoing provisions with respect to receiving a dividend in the form of a stock dividend, payment of the dividend on the Series B Preferred Shares payable on any Dividend Payment Date (less any tax required to be deducted) shall be made by cheque of the Company, dated the day on which the dividend is payable, payable in lawful money of Canada at par at any branch in Canada of the Company's bankers. The mailing from the Company's principal office in Canada on or before any Dividend Payment Date of such a cheque to a holder of Series B Preferred Shares shall satisfy the dividend represented thereby and payable on such Dividend Payment Date unless the cheque is not paid upon presentation. A dividend represented by a cheque that was so mailed by the Company but which has not been presented to the Company's bankers for payment or that otherwise remains unclaimed for a period of six (6) years from the date on which it was payable shall be forfeited to the Company.

If on any Dividend Payment Date the dividends accrued to such date are not paid in full on all of the Series B Preferred Shares then outstanding, such dividends, or the unpaid portions thereof, shall be paid on a subsequent date or dates as and when declared by the Board of Directors out of the moneys of the Company properly applicable to the payment of dividends. The holders of the Series B Preferred Shares shall not be entitled to any dividends other than or in excess of the fixed cumulative preferential dividends hereinbefore provided for.

(c) Purchase Obligation

Subject to the provisions of clause (h) of this Part III, the Company shall, during each calendar quarter, beginning with the calendar quarter ending September 30, 1978, use all reasonable efforts to purchase in the market (including, but without limiting the generality of the foregoing, the purchase through or from an investment dealer or a firm holding membership on a recognized stock exchange), at such time or times as it in its discretion shall determine, thirty-seven thousand five hundred (37,500) Series B Preferred Shares, if and to the extent that such shares are available for purchase at a price or prices not exceeding twenty-five dollars ($25.00) per share plus costs of purchase. The obligation of the Company under this clause (c) to purchase Series B Preferred Shares shall be cumulative during each calendar year so that the number of Series B Preferred Shares to be purchased in any calendar quarter during such calendar year shall be increased by the number of Series B Preferred Shares which the Company was unable to purchase during previous calendar quarters in such

calendar year. If, after making all reasonable efforts, the Company is unable so to purchase in 1978 an aggregate of seventy-five thousand (75,000) Series B Preferred Shares or in any subsequent calendar year an aggregate of one hundred and fifty thousand (150,000) Series B Preferred Shares, the Company's obligation to purchase Series B Preferred Shares with respect to 1978 or that calendar year, as the case may be, shall be extinguished and the Company shall be under no further obligation to purchase Series B Preferred Shares in respect of that year.

The number of Series B Preferred Shares which the Company is obligated to purchase during any calendar quarter pursuant to this clause (c) shall be reduced by the number of Series B Preferred Shares (if any) purchased by the Company pursuant to clause (e) of this Part III in the calendar year in which such calendar quarter falls to the extent that the Series B Preferred Shares so purchased have not been applied to reduce the number of Series B Preferred Shares which the Company was obligated to purchase pursuant to this clause (c) during previous calendar quarters falling in such calendar year.

If any Series B Preferred Shares which are purchased pursuant to this clause (c), or which are purchased pursuant to clause (e) of this Part III and are applied to reduce the number of Series B Preferred Shares that the Company would otherwise be obligated to purchase pursuant to this clause (c), are not cancelled, the Company shall not reissue such shares as Series B Preferred Shares.

The Company's obligation to purchase Series B Preferred Shares pursuant to this clause (c) shall be suspended during any period in which such purchase would be contrary to the provisions of clause (h) of this Part III or of any applicable law, but such obligation shall cease to be suspended as soon as such purchase would no longer be contrary to the provisions of clause (h) of this Part III or of any applicable law. The Company's obligation to purchase Series B Preferred Shares pursuant to this clause (c) shall not accumulate during the period of any such suspension. Such purchase obligation pursuant to this clause (c) shall terminate upon commencement of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or upon commencement of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs.

(d) Redemption

The Company may not redeem the Series B Preferred Shares, or any of them, before the first (1st) day of December, 1982. In addition, the Company may not redeem the Series B Preferred Shares, or any of them, at any time if any part of the Redemption Price (as hereinafter defined) which constitutes a repayment of paid-up capital would for the purposes of the Income Tax Act (Canada) be deemed to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Company being less than the paid-up capital in respect of those shares so to be redeemed. Subject to the foregoing and to the provisions of clause (h) of this Part III, the Company, upon giving notice as hereinafter provided, may redeem the whole, or from time to time any part, of the outstanding Series B Preferred Shares upon payment for each share to be redeemed of the price (the "Redemption Price") hereinafter set forth. The Redemption Price shall be the applicable amount set forth below together in each case with an amount equal to all dividends accrued and unpaid to the redemption

date on the Series B Preferred Shares to be redeemed:

If redeemed in the 12 months ending December 1,	
1983	$26.00
1984	$25.80
1985	$25.60
1986	$25.40
1987	$25.20
1988 and thereafter	$25.00.

The Company shall give to each holder of Series B Preferred Shares to be redeemed at least thirty (30) days' notice of the intention of the Company to redeem such shares. Such notice shall set out the Redemption Price (other than the amount of any dividends forming part of the Redemption Price) and, if less than all the outstanding Series B Preferred Shares are to be redeemed, the number of Series B Preferred Shares held by the holder to whom such notice is addressed which are to be redeemed. Such notice shall also set out the date on which the redemption is to take place, and on and after the redemption date so specified the Company shall pay or cause to be paid to each of the holders of the Series B Preferred Shares to be redeemed the Redemption Price of such shares upon presentation and surrender, at the place or places within Canada designated by such notice, of the certificate or certificates for the Series B Preferred Shares so called for redemption. Subject to the provisions set out below in this clause (d), payment of the Redemption Price may be made by cheque payable in lawful money of Canada at par at any branch in Canada of the Company's bankers. From and after the redemption date, the Series B Preferred Shares called for redemption shall cease to be entitled to dividends or any other participation in the assets of the Company and the holders thereof shall not be entitled to exercise any of the other rights of shareholders in respect thereof unless payment of the Redemption Price shall not be duly made by the Company upon presentation and surrender of the certificates in accordance with the foregoing provisions. The Company may include in such notice a statement that the moneys required for the payment of the Redemption Price have been deposited or will be deposited on or before the opening of business on the redemption date or a specified date prior to such date with a specified chartered bank or a specified trust company in Canada in trust for the respective holders of such shares to be paid to them respectively upon surrender to such bank or trust company of the certificate or certificates representing the same, or that the Company has set aside such moneys or will set aside such moneys on or before the opening of business on the redemption date or a specified date prior to such date in trust for the respective holders of such shares to be paid to them respectively upon surrender to the Company of the certificate or certificates representing the same, and upon (i) the giving of such notice and (ii) such deposit being made or such moneys being set aside, whichever is the later, such shares shall be deemed to be redeemed and all rights of the holders of such shares as against the Company shall be limited to receiving the amount so deposited or set aside without interest, and such holders shall cease to be entitled to dividends or any other participation in the assets of the Company and shall not be entitled to exercise any other rights as holders of the Series B Preferred Shares so redeemed. In case a part only of the Series B Preferred Shares are to be redeemed, the shares to be redeemed may be selected by lot, or redemption may be effected on a pro rata basis (disregarding fractions), as the Board of Directors in its sole discretion shall deter-

mine. If a part only of the Series B Preferred Shares represented by any certificate shall be redeemed, the Company shall issue and deliver to the holder, at the expense of the Company, a new share certificate representing the balance not redeemed.

(e) Purchase Privilege

Subject to the provisions of clause (h) of this Part III, the Company may at any time or from time to time purchase (if obtainable) the whole or any part of the Series B Preferred Shares by private contract, in the market (including, but without limiting the generality of the foregoing, the purchase through or from an investment dealer or a firm holding membership on a recognized stock exchange), or by invitation for tenders addressed to all of the holders of Series B Preferred Shares, at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable, but, if such purchase is made before the first (1st) day of December, 1982, not exceeding twenty-six dollars ($26.00) per share and all accrued and unpaid dividends thereon to the date of purchase, and, if such purchase is made on or after that date, not exceeding the Redemption Price at which, on the date of purchase, such shares are redeemable as provided for in clause (d) of this Part III, together in each case with the costs of purchase. If, upon any invitation for tenders under the provisions of this clause (e), more Series B Preferred Shares are tendered at a price or prices acceptable to the Company than the Company is willing to purchase, the Series B Preferred Shares to be purchased by the Company shall be purchased as nearly as may be pro rata (disregarding fractions) to the number of shares tendered by each holder who submits a tender to the Company, provided that, when shares are tendered at different prices, the pro-rating shall be effected with respect to the shares tendered at the price level at which more shares were tendered than the Company is willing to purchase after the Company has purchased all the shares tendered at lower price levels.

(f) Voting Rights

The holders of the Series B Preferred Shares shall be entitled to receive notice of, and to attend and vote at (on the basis of one vote for each share held) either in person or by proxy, all meetings of shareholders of the Company other than separate meetings of the holders of shares of another series or class of shares of the Company.

(g) Communications to Shareholders

So long as any of the Series B Preferred Shares are outstanding, the Company shall send to the holders of the Series B Preferred Shares, at the time of distribution to the holders of the other shares of the Company that carry general voting rights, copies of the Company's annual and interim reports to shareholders and copies of all other information distributed to the holders of such other shares.

(h) Restrictions on Dividends and Retirement of Shares

So long as any of the Series B Preferred Shares are outstanding, the Company shall not at any time:

(i) declare, pay or set apart for payment any dividends, other than stock dividends payable in Junior Shares (as hereinafter defined), on any Junior Shares,

(ii) call for redemption, purchase or otherwise retire for value any Junior Shares, or

(iii) call for redemption, purchase or otherwise retire for value (x) less than all of the

Series B Preferred Shares or (y) any other Preferred Shares or (z) any other shares of the Company ranking prior to or on a parity with the Series B Preferred Shares in respect of the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs,

unless, in each such case, all dividends accrued on the outstanding Series B Preferred Shares and on all other shares of the Company ranking prior to or on a parity with the Series B Preferred Shares in respect of the payment of dividends to the most recently preceding respective date or dates for the payment of dividends thereon shall have been paid or set apart for payment. "Junior Shares" mean the Common Shares of the Company and any other shares of the Company ranking junior to the Preferred Shares in respect of the payment of dividends and in respect of the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs.

(i) Liquidation, Dissolution or Winding Up

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Series B Preferred Shares shall be entitled to receive the sum of twenty-five dollars ($25.00) per share, together with an amount equal to all accrued and unpaid dividends thereon to the date of payment, and, if such liquidation, dissolution, winding up or other distribution be voluntary, the holders of the Series B Preferred Shares shall, in addition, be entitled to receive a premium of one dollar ($1.00) per share if such event commences prior to the first (1st) day of December, 1982, or, if such event commences on or after that date, a premium equivalent to the premium which would be payable as part of the Redemption Price if such shares were to be redeemed in accordance with clause (d) of this Part III on the date of commencement of any such liquidation, dissolution, winding up or other distribution, the whole before any amount shall be paid by the Company or any assets of the Company shall be distributed to holders of Junior Shares. After payment to the holders of the Series B Preferred Shares of the amount so payable to them, they shall not be entitled to share in any further distribution of assets of the Company.

(j) Notices

Any notice, cheque, invitation for tenders or other communication from the Company provided for in this Part III shall be sent to the holders of the Series B Preferred Shares by ordinary unregistered mail, postage prepaid, at their respective addresses appearing on the books of the Company or, in the event of the address of any such holder not so appearing, then at the last known address of such holder. Accidental failure to give any such notice, invitation for tenders or other communication to one or more holders of the Series B Preferred Shares shall not affect the validity thereof, but, upon such failure being discovered, the notice, invitation for tenders or other communication, as the case may be, shall be sent forthwith to such holder or holders and shall have the same effect as if given in due time.

(k) Interpretation

In the event that any date on which any dividend on the Series B Preferred Shares is payable by the Company, or on or by which any other action is required to be taken by the Company under this Part III, is not a business day (as hereinafter defined), then such dividend shall be payable, or such other action shall be required to be taken, on or by the next succeeding date that is a business day. A "business day" shall be a day other than a Saturday, a Sunday or any other day that is treated as a holiday at the Company's principal office in Canada.

(l) Amendments

Subject to compliance with applicable law, the rights, privileges, restrictions, conditions and other provisions attaching to the Series B Preferred Shares may be amended or repealed by the Company, but only with the approval of the holders of the Series B Preferred Shares as provided in clause (m) of this Part III, provided however that no such amendment or repeal shall be made without approval by at least a majority of the votes cast at a meeting of the holders of the Series B Preferred Shares duly called for that purpose.

(m) Approval of Holders of Series B Preferred Shares

Any approval to be given by the holders of the Series B Preferred Shares shall be deemed to have been sufficiently given if given by such holders as provided in clause (h) of the provisions attaching to the Preferred Shares as a class (Part I above), which provisions shall apply *mutatis mutandis* as though the term "Series B Preferred Shares" were used in such clause in place of the term "Preferred Shares", and the formalities to be observed with respect to the giving of notice of and voting at any meeting of the holders of the Series B Preferred Shares for the purpose of obtaining such approval (including, without in any way limiting the generality of the foregoing, the record dates for the giving of notice and the entitlement to vote), the quorum therefor and the conduct thereof shall *mutatis mutandis* be those from time to time prescribed by the by-laws of the Company or standing resolutions of the Board of Directors with respect to meetings of shareholders.

EXHIBIT B

BY-LAW NO. 1

A BY-LAW TO REGULATE THE BUSINESS AND AFFAIRS OF THE COMPANY

Part 1

INTERPRETATION

SECTION 1.01 In this By-law and all other by-laws and resolutions of the Company, unless the context otherwise requires:

(a) the following terms shall have the meanings specified:

(i) "Act" means the Canada Business Corporations Act or any statute which may be substituted therefor, as amended from time to time;

(ii) "Articles" means the Articles of Continuance of the Company as amended or restated from time to time;

(iii) "Board" means the Board of Directors of the Company;

(iv) "Company" means
INCO LIMITED (English form)
INCO LIMITÉE (French form);

(v) "Director" means a member of the Board;

(vi) "meeting of shareholders" means an annual meeting of shareholders of the Company, or a special meeting of shareholders of the Company, or both, and includes a meeting of any class or series of any class of shareholders of the Company; and

(vii) "Officer" means an officer of the Company;

(b) terms used herein that are defined in the Act shall have the meanings given to those terms in the Act; and

(c) words importing the masculine gender shall include the feminine and neuter genders, and words importing the singular number shall include the plural number, and vice versa.

Part 2

SHAREHOLDERS

SECTION 2.01 *Annual and special meetings.* The Board shall call an annual meeting of shareholders not later than 15 months after the holding of the last preceding annual meeting. The Board may at any time call a special meeting of shareholders.

SECTION 2.02 *Place of meetings.* Each meeting of shareholders shall be held in the City of Toronto, in the Province of Ontario, or at such other place within Canada as the Board may determine.

SECTION 2.03 *Notice of meetings.* Notice in writing of the time and place of each meeting of shareholders shall be sent not less than 21 days nor more than 50 days before the meeting to each shareholder entitled to vote at the meeting, to each Director and to the auditors of the Company. The accidental failure to give notice of a meeting of shareholders to any person entitled thereto or any error in such notice not affecting the substance thereof shall not invalidate any action taken at the meeting.

SECTION 2.04 *Quorum.* At any meeting of shareholders, the holders present in person or represented by proxy of at least 25% of the outstanding shares of the Company entitled to be voted at the meeting shall constitute a quorum for the transaction of business. If a quorum is not present at the opening of any meeting of shareholders, or, if subsequent to

the opening of a meeting there ceases to be a quorum present, the holders present in person or represented by proxy of a majority of the shares represented at the meeting may adjourn the meeting to a fixed time and place, but no other business may be transacted.

SECTION 2.05 *Presiding officer.* The Chairman of the Company or, if he is not present, the President of the Company or, in the absence of both of them, a Director designated by the Board shall act as chairman at each meeting of shareholders. The Secretary of the Company, or, in his absence, such other person as the chairman of the meeting may appoint, shall act as secretary of the meeting.

SECTION 2.06 *Scrutineers.* At any meeting of shareholders, the chairman of the meeting may appoint one or more persons, who may but need not be shareholders, to serve as scrutineers with such duties as the chairman may prescribe.

SECTION 2.07 *Voting.* Voting at any meeting of shareholders shall be by a show of hands except where, either before or after a show of hands, a ballot is required by the chairman of the meeting or is requested by any person present and entitled to vote at the meeting. On a show of hands, each person present and entitled to vote at the meeting shall have one vote. On a ballot, each shareholder present in person or represented by proxy at the meeting and entitled to vote thereat shall, subject to the Articles, have one vote for each share entitled to be voted that is registered in his name. Any ballot shall be taken in such manner as the chairman of the meeting directs.

SECTION 2.08 *Dividends.* The mailing or other transmission to any shareholder of the Company, at his address as recorded in the Company's share register, of a cheque payable to his order for the amount of any dividend payable in cash shall discharge the Company's liability for the dividend to the extent of the amount of the cheque plus the amount of any tax which the Company has properly withheld, unless the cheque is not paid on due presentation. In the event of the non-receipt of any cheque for a dividend payable in cash, the Company shall issue to the shareholder a replacement cheque for the same amount on such reasonable terms as to indemnity and evidence of non-receipt as the Board, or any Officer or agent designated by the Board, may impose. No shareholder shall be entitled to recover by action or other legal process against the Company any dividend that is represented by a cheque that has not been duly presented to a banker of the Company for payment or that otherwise remains unclaimed for a period of 6 years from the date on which it was payable.

Part 3

DIRECTORS AND OFFICERS

SECTION 3.01 *Number, term and qualifications of Directors.* The number of Directors shall be a minimum of 12 and a maximum of 25, and the number within such range shall be determined from time to time by the Board. The Board shall be divided into two classes of Directors of such numbers as the Board may determine from time to time, and the Directors in each class shall be elected for a term of 2 years at alternate annual meetings, provided, however, that the number of Directors, as so determined, in one class shall not at any time exceed the number of Directors in the other class by more than 3. Retiring Directors shall be eligible for re-election.

Notwithstanding the foregoing, the term of the 11 Directors elected prior to continuance of the Company under the Act to hold office

until the annual meeting of shareholders to be held in 1980 shall continue until such annual meeting, and the term of the 10 Directors elected prior to such continuance to hold office until the annual meeting of shareholders to be held in 1981 shall continue until such annual meeting.

If between any two consecutive annual meetings the Board shall decide to increase by more than two the number of Directors within the range of 12 to 25, the resulting vacancies on the Board in excess of two shall be filled at a meeting of shareholders by the shareholders entitled to vote on the election of Directors. Subject to the foregoing provisions of this Section and to Section 3.06 hereof, if at any time there are fewer Directors in office than the number that the Board has determined pursuant to the provisions of the first sentence of this Section, the Board may fill the vacancies.

A majority of the members of the Board and of each committee of Directors shall be resident Canadians.

SECTION 3.02 *Regular meetings.* Regular meetings of the Board shall be held at such times and places as may be fixed by the Board from time to time.

SECTION 3.03 *Special meetings.* A meeting of the Board other than a regular meeting referred to in Section 3.02 hereof may be held at any time upon call by the Chairman of the Company, the President of the Company, the Executive Committee of the Board, or a majority of the Directors then in office.

SECTION 3.04 *Place of meetings.* Each meeting of the Board shall be held in the City of Toronto, in the Province of Ontario, or at such other place within Canada or elsewhere as the Board or the person or persons calling the meeting may determine.

SECTION 3.05 *Notice.* Written or oral notice of the time and place of each meeting of the Board shall be given to each Director at least 24 hours before the meeting. A notice of a meeting of the Board need not specify the business to be transacted at the meeting except as may be required by the Act. The accidental failure to give notice of a meeting of the Board to a Director or any error in such notice not affecting the substance thereof shall not invalidate any action taken at the meeting.

SECTION 3.06 *Quorum.* One-third of the number of Directors as determined by the Board pursuant to Section 3.01 hereof shall constitute a quorum for the transaction of business at any meeting of the Board. If there is no quorum at a meeting, a majority of the Directors present may adjourn the meeting to a fixed time and place, but no other business may be transacted.

SECTION 3.07 *Presiding officer.* The Chairman of the Company or, if he is not present, the President of the Company or, in the absence of both of them, a Director designated by the Board shall act as chairman at each meeting of the Board. In the event of an equality of votes on any question at a meeting of the Board, the chairman of the meeting shall be entitled to a second or casting vote.

SECTION 3.08 *Executive Committee.* The Board may elect from among the Directors an Executive Committee, of which the Chairman of the Company and the President of the Company shall be members. During the intervals between meetings of the Board, the Executive Committee may, subject to any limitations prescribed by the Act, exercise all of the powers vested in the Board except any powers that the Board may have previously expressly withheld from the Executive Committee or delegated

exclusively to other committees pursuant to Section 3.09 hereof.

SECTION 3.09 *Other committees.* The Board may elect or appoint additional committees composed of Directors and/or other persons which may exercise such powers as, subject to any limitations prescribed by the Act, the Board may delegate to them and shall have such other functions as the Board may determine.

SECTION 3.10 *Officers.* The Board may elect or appoint such Officers having such responsibilities as the Board sees fit, provided that at all times there shall be a Chairman and a President (who may be the same person) who shall be elected from the Board and there shall be a Secretary.

SECTION 3.11 *Compensation.* Each Director shall receive such reasonable compensation as may be authorized by the Board from time to time.

SECTION 3.12 *Indemnity and insurance.* Subject to the limitations contained in the Act but without limit to the right of the Company to indemnify any person under the Act or otherwise, the Company shall indemnify a Director or Officer, a former Director or Officer, or a person who acts or acted at the Company's request as a director or officer of a body corporate of which the Company is or was a shareholder or creditor, and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a Director or Officer or a director or officer of such body corporate, if

(a) he acted honestly and in good faith with a view to the best interests of the Company, and

(b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful.

Subject to the limitations contained in the Act, the Company may purchase and maintain such insurance for the benefit of such persons referred to in this Section as the Board may from time to time determine.

Part 4

BORROWING

SECTION 4.01 *Loans and guarantees.* Without limit to the powers of the Board as provided in the Act, the Board may from time to time on behalf of the Company:

(a) borrow money upon the credit of the Company;

(b) issue, reissue, sell or pledge debt obligations of the Company;

(c) to the extent permitted by the Act, give a guarantee on behalf of the Company to secure performance of an obligation of any person or give, directly or indirectly, financial assistance to any person on behalf of the Company by means of a loan, guarantee or otherwise;

(d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Company, owned or subsequently acquired, to secure any obligation of the Company; and

(e) delegate to one or more Directors or Officers all or any of the powers conferred by the foregoing provisions to such extent and in such manner as the Board shall determine at the time of each such delegation.

Part 5

EXECUTION OF DOCUMENTS

SECTION 5.01 The Board may from time to time determine the Officers or other persons by whom any particular document or instrument or class of documents or instruments of the Company shall be executed and the manner of execution thereof, including the use of facsimile reproductions of any or all signatures and the use of the corporate seal or a facsimile reproduction thereof.

Part 6

EFFECTIVE DATE

SECTION 6.01 This By-law shall come into force upon the continuance of the Company under the Act.

SECTION 6.02 All other by-laws of the Company that are in force upon the effective date of this By-law shall be repealed.

EXHIBIT C

1979 KEY EMPLOYEES INCENTIVE PLAN

1. The Plan is designed to provide additional incentive for key employees (including officers who are full-time employees, whether or not Directors) of the Company and its subsidiaries by the grant of options to purchase Common Shares of the Company and/or by the making of awards of incentive compensation. It is intended that the share options and awards of incentive compensation will be given in a way calculated to be most effective to retain or attract and to provide additional incentive to key employees, having regard to their individual potential, location, contributions to the Company and other applicable considerations.

2. The Plan shall be administered by a Committee of three or more Directors, appointed annually by the Board of Directors of the Company from those of its members who at the time they act are not, and for at least one year prior thereto have not been, eligible to participate under the Plan or any other plans of the Company or any of its subsidiaries or other affiliates entitling the participants therein to acquire shares, share options or share appreciation rights of the Company or any of its subsidiaries or other affiliates. The Committee shall have full authority to establish regulations for the administration of the Plan and to interpret it.

3. Share Options.

(a) The Board of Directors of the Company and, with the consent of that Board, the Board of Directors of any subsidiary of the Company may from time to time, as and if recommended by the Committee, grant to key employees of the Company and its subsidiaries, or of such subsidiary, as the case may be, options to purchase not exceeding

in the aggregate 1,000,000 Common Shares of the Company, from the Company, or from such subsidiary, as the case may be, provided that the Committee, subject to ratification by the Board of Directors of the Company, shall make adjustments in the number and kind of shares available for or subject to option, and in the purchase price of shares subject to option, as it may deem appropriate in the event of a share subdivision, share consolidation, share dividend (other than an optional share dividend in lieu of a cash dividend), amalgamation, merger, consolidation, share reclassification or other change in the capital structure of the Company. The Company may issue shares or may acquire outstanding shares for the purpose of satisfying the exercise of an option or of a share appreciation right. If shares are to be delivered by a subsidiary, the Company may issue the shares required or the subsidiary may acquire outstanding shares for such purpose.

(b) The purchase price of the shares payable upon exercise of each option, which shall not be less than 100% of their market value, as determined by the Committee, on the date the option is granted, and all other terms and conditions of each option shall be fixed for such option by the Board of Directors of the Company or of the subsidiary, as the case may be, in each case on recommendation of the Committee, provided that (i) no shares subject to option shall be purchasable after the expiration date fixed in the option, which date shall not be later than ten years after the date the option is granted, and (ii) no person shall have any of the rights of a shareholder in respect of shares subject to an option until such shares have been paid for in full and issued to him. Any shares subject to an option which shall have terminated or expired (other than to the extent surrendered upon the exercise of a share appreciation right) may thereafter be reoptioned.

(c) Any option may include a share appreciation right at the time of grant, if recommended by the Committee and authorized by the Board of Directors of the Company or, with the consent of that Board, the Board of Directors of the subsidiary of the Company granting such option. Any option previously granted under the Plan or under the Key Employees Incentive Plan approved by the shareholders of the Company on July 17, 1968 and remaining unexercised may be amended to include a share appreciation right, if recommended by the Committee and authorized by the Board of Directors of the Company or, with the consent of that Board, the Board of Directors of the subsidiary of the Company which granted such option. Subject to such terms and conditions as the authorizing Board may provide, such right shall entitle the optionee to surrender unexercised the option to which the right relates, or any portion thereof, but only to the extent such option is then exercisable, and to receive upon such surrender that number of shares having an aggregate value equal to the amount of the excess of the then market value of one share over the purchase price per share specified in the option, multiplied by the number of shares purchasable upon exercise of the option, or portion of option, so surrendered; provided that, at the election of the Company or the subsidiary which granted such right, it may deliver cash, or a combination of cash and shares, equal in value to the amount of such excess.

4. Incentive Compensation.

Awards of incentive compensation may be made in respect of each fiscal year, beginning with 1979, in accordance with the provisions of this Section 4. Such awards may be made in, or in commitments to deliver, cash, shares of the Company, incentive units evidencing commitments to pay or deliver at some future date or dates cash or shares in amounts measured by or otherwise dependent upon earnings or other performance criteria, or share units evidencing commitments to deliver or pay at some future date or dates shares or cash equal to the market value of shares at such date or dates, together in each case, if so provided, with amounts equal to dividends and other distributions paid on an equivalent number of shares, or such other kind or form of compensation as may, in the judgment of the Committee, be best calculated to further the purposes of the Plan, all on such terms and subject to such conditions as the Committee may determine.

In respect of each year, the Committee, subject to ratification by the Board of Directors of the Company, shall, from time to time, but not later than the end of the year following such year, fix the extent, if any, to which, within the limits of the "Incentive Fund" for such year, awards of incentive compensation shall be made in respect of such year by the Company and by its subsidiaries, and, subject to ratification by the Board of Directors of the Company or of the subsidiary making the award, as the case may be, determine the participants for the year, the award to be made to each participant and the time when it is to be paid. The amount of the Incentive Fund for each year shall be equal to (A) 1% of the sum of the consolidated net earnings of the Company and consolidated subsidiaries and provisions for income and mining taxes for such year, as certified by the Company's independent auditors and set forth in the financial statements in the Company's Annual Report to Shareholders for such year, plus (B) the excess, if any, of the aggregate amount of the Incentive Funds for all years prior to such year over the aggregate amount charged pursuant to this Section 4 against such Incentive Funds. Awards made under this Section 4 shall be deemed for the purpose only of determining the amount to be charged therefor against an Incentive Fund or Funds to have the value of the cash or shares or incentive units or share units or other kind or form of compensation awarded that is determined by the Committee, as of the time the award is made and disregarding the effect of any restrictions or delayed delivery provisions which would otherwise reduce such value, on such basis as the Committee shall deem reasonable. The value of any award made under this Section 4 shall be charged against the Incentive Fund for the year in respect of which such award is made, except that, in the case of any award the amount of which is measured by or otherwise dependent upon future earnings of the Company and consolidated subsidiaries, the Committee may, at the time such award is made, elect that there shall be charged against the Incentive Fund for the year in respect of which such award is made and the Incentive Fund or Funds for each succeeding year or years such amount or amounts, as may be determined by the Committee, but not less than the lesser of (i) the value of such award divided by the number of years in the period from the beginning of the year in respect of which such award is made to the earlier of the end of the year in which such award is to be paid or delivered in full or the end of 1983 or (ii) the portion of the value of such award that shall not have been previously charged against an Incentive Fund, *provided, however,* that the Committee may at any time increase the amount to be

charged for such award against the Incentive Fund for any year by all or part of the amounts to be charged for such award against the Incentive Fund or Funds for a subsequent year or years, and *provided, further,* that any excess of amounts to be charged against the Incentive Fund for any year for awards made in respect of prior years over the amount of such Incentive Fund shall be charged against the Incentive Fund or Funds for the succeeding year or years. No awards shall be made under this Section 4 in respect of any year unless and until the total value of all awards made under this Section 4 in respect of prior years shall have been charged against the Incentive Fund or Funds for such year or prior years.

If awards are made in shares (or amounts of cash equal to the value of shares) or share units, or other forms measured by shares, to be delivered or paid in the future, appropriate adjustments in the number and kind of shares, or units measured by shares, shall be made in the same way as is provided for share options in Section 3(a) in the event of a change in the capital structure of the Company. If awards of shares are made by the Company, the Company may issue shares or may acquire outstanding shares for such purpose. If awards of shares are made by a subsidiary, the Company may issue the shares required or the subsidiary may acquire outstanding shares for such purpose.

5. Nothing in the Plan shall prevent a participant from being included in any other employee plan of the Company or any of its subsidiaries or other affiliates or from receiving any compensation (whether regular, special, supplemental, incentive, current, deferred or otherwise) now or hereafter provided by the Company or any of its subsidiaries or other affiliates. Neither the Plan nor any action taken thereunder shall be understood as giving to any person any right to be retained in the employ of the Company or any subsidiary or other affiliate, nor shall any person (including persons selected as participants for a prior year) be entitled as of right to be selected as a participant in the Plan for any year.

6. The Board of Directors of the Company may amend, suspend or terminate the Plan in whole or in part at any time, provided that the rights and interests of participants to whom unexpired share options or awards of incentive compensation have theretofore been granted or made shall not thereby be adversely affected without their consent and no amendment which would increase the number of shares which may be subject to share options or otherwise materially increase the cost of the Plan shall be made effective unless approved at a meeting of the holders of the shares of the Company carrying general voting rights. The Plan shall become effective on April 18, 1979. Unless the Plan is sooner terminated by the Board of Directors, no share options or share appreciation rights may be granted after April 17, 1984 and no awards of incentive compensation may be made in respect of any fiscal year after 1983, provided that the provisions of the Plan shall continue with respect to any options, rights or awards theretofore granted or made.

Notice of Annual and Special General Meeting of Shareholders April 18, 1979

Information Circular and Proxy Statement

INCO LIMITED

To be held at 11:00 a.m.
Wednesday, April 18, 1979
Ballroom, Convention Floor, Royal York Hotel
Toronto, Ontario

Printed in Canada